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Between East and West

II. *Saragat*

Second in a series of four portraits

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I

THE twilight has settled upon Eduard Benes. It is still hovering over Giuseppe Saragat. How many American readers are already familiar with this quiet, hardworking Italian, whose courage and perseverance match those of Benes? Saragat, like Benes, knew exile during the years of Fascist ascendancy. Like Benes he staged a come-back when the Fascist era ended, (or shall we say more cautiously, when it suffered eclipse in Italy). Unlike Benes, however, Saragat rose to prominence in the post-war era, while the star of Benes never reached its pre-war zenith again. This may be due, in part to the difference in their ages—Benes is 64, Saragat is 50.

Like the majority of European Social-Democratic leaders, Saragat comes from a solid bourgeois background. His father was a lawyer in Torino; his mother, Ernestina Straffa, perhaps the more impressive personality, still lives in Torino. Torino was the former capital of the house of Savoy prior to the unification of modern Italy. On the whole, the bourgeoisie of the town was still as stoutly liberal and democratic in 1898, the year of Giuseppe's birth, as it had been throughout the nineteenth century. The days, when in 1847 the King of Sardinia had finally been "persuaded" to grant the liberal constitution, the *Statute,* to his citizens, were unforgotten. With the growth of the industrial population, the formation of socialist groups began in earnest, but in the house of attorney Saragat liberalism, not socialism, prevailed. It was a leftist liberalism to be true, strongly permeated with the anti-clericalism of nineteenth century liberalism, but a liberalism which permitted father Saragat to be on the best of terms with capitalists like director Goldmann of the *Banca Commerciale.*

The youth of the three Saragat boys was the happy one of a typical Italian middle-class family: A secure home in a good residential district of Torino, summer vacations in one resort or another, school-days, the reading of such classics as *Pinocchio* and Nick Carter, and, of course, the unforgettable first communion. Of the three boys, Giuseppe resembled his mother in his reticence and lack of what foreigners generally consider the natural Italian *joie de vivre.* Sober and quiet, no wonder-child either in school or in non-academic activities, he obtained what in Italy is called the *lizenza elementare,* upon which the various kinds of higher education are founded. The *gimnasio* or the *liceo* would have been the institution for which Giuseppe in particular

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would have seemed suited. Yet father Saragat's decision vetoed such plans. Under the influence of his friend, director Goldmann of the Torino branch of the *Banca Commerciale,* he had become convinced that the twentieth century belonged to commerce and industry. A classical education, therefore, seemed to him a waste of time. He himself would in his spare time give his sons a suitable minimum of classical education. Meanwhile, however, each boy entered the *scuola technica* as soon as he finished his elementary education. Giuseppe's turn came in 1907, when he reached the ripe old age of nine. There is reason to believe that his lack of real familiarity with the classical heritage of European culture has left him somewhat the poorer, his personality less profound, although his character, of course, remained unaffected.

His formal schooling terminated with the completion of the *Scuola superiore di Commercio,* an institution which fitted its graduates for careers in commerce and industry. The day approached when he would embark on the profession of his father's choice. He entered a bank in 1915, thanks to the large number of vacancies created by the drafting of most of the bank's personnel. He looks back with horror to those days of office-routine which he stood for exactly a month. Demanding a more responsible position than that of a mere clerk assigned to mechanical routine work, he was told that such tasks were reserved for older and permanent employes alone. He pleaded, failed, and quit, refusing even to draw his pay. We shall observe exactly the same reaction in him, when it came to his re-entry into De Gasperi's ministry in 1948.

One can well imagine the domestic repercussions of such behavior. Father Saragat fretted and fumed. Giuseppe took to his books, and when home became too turbulent, began to absent himself more and more frequently. Under such circumstances he greeted the draft which called him up with relief. He survived World War I and was demobilized as an artillery lieutenant. Drifting back into civilian life the young man became interested in a newly formed socialist group, whose members included a certain schoolmate of his: Palmiro Togliatti, Italy's number one Communist leader today. Saragat became acquainted with this group of socialist students through one of his friends, but he obstinately refused to join the Socialist party. Meanwhile, he led the usual life of a student of good family. Political discussions did not keep him from enjoying the dancehalls and flirting with a number of young ladies, but his studies in economics and sociology absorbed his time and energy. Finally, however, a girl complained that during their last date Giuseppe had spoken of nothing but Karl Marx. He was obviously getting ready to enter the Socialist ranks formally.

II

Historians thousands of years hence will date the end of an era from 1914. The bewildered millions who returned from World War I found many more equally bewildered millions at home. Man's incurably romantic instinct to go back to a past which in 1918 looked more pleasant than the bleak and harassed present clashed with a deep-rooted and widespread desire to use this period of flux for the abolition of long-standing social and economic ills. The red star which had risen in the East became to many a new star of Bethlehem. Violent conflicts ensued in the Socialist ranks the world over. The evolutionary wing wanted to continue its unspectacular but highly successful pre-1914 policy of bettering the lot of the lower classes without demolishing (except orally or in writing around May 1 each year) the capitalistic and largely democratic fabric of western political and economic institutions. In Russia, revolutionary socialism, adopting again the nineteenth century name of Communism, seemed to prove the possibility of a revolutionary shortcut to the socialist millennium. A brave new world appeared to rise in the almost limitless expanse of the Russian empire.

Outside Russia the split manifested itself in every major European country. It affected the trade-unions no less than the political parties. Communist parties were born in every country; they were the eyes, ears, and agents of the Kremlin whose word soon became law, destroying everywhere feeble attempts on the part of some Communist leaders to preserve some shreds of independence within the political framework of their respective states.

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The greater the difference between the living standards of the upper and the lower strata, the lustier grew communism. In order not to lose their shrinking hold upon the labor vote, evolutionary Socialists in many cases tried to collaborate on certain fronts with the new Communists. Since the latter hated and despised their Marxist brethren of the evolutionary groups, such alliances inevitably proved a failure. It is amusing to notice how little the Social-Democrats of some countries have remembered those lessons today. Among those who remember, however, is Saragat. At the time he himself, however, wavered between the attractive aggressive approach of the new communism and the less spectacular Marxism of the evolutionary Socialists.

Without as yet having formally joined any political party, Saragat managed to combine his daytime professional activities as an employee of the *Banca Commerciale* (which he had entered in 1920) with nightly political discussions and meetings. At last he took the plunge and joined the United Socialist Party, from which young radicals, like Saragat's schoolmate Togliatti, were already seceding. Perhaps Saragat's rapid rise within the party of his choice was due to the relative dearth of educated young members, many of whom had succumbed to the more seductive Communist slogans. At any rate we find Saragat soon in Milan among the protégés of Italy's veteran Socialist leader Turati whose indoctrination undoubtedly has influenced Saragat profoundly. While Mussolini's star ascended rapidly and brilliantly, Saragat's moved more slowly; he was merely admitted to the executive committee of the party.

The quiet bank clerk retained his job as a cog in the capitalist machinery without finding his position anomalous, or even incongruous. Conversely speaking, his political activities, undoubtedly known to his superiors, did not cause them to fly up in terror and to fire him. Perhaps they indulgently took Saragat's red flirtation for the passing extravagance of a young man of good family. The Fascist regime, however, began to become more interested in him, when the consolidation of its power permitted it to expand its oppressive policies. For the first time Saragat was arrested for alleged subversive activities. An American bank under a—heaven forbid—Fascist American regime would undoubtedly have fired a clerk upon which the state's watchful eye had lighted in such a fashion, the clerk being considered to be in the position of Caesar's wife, upon whom not even a suspicion must fall. Yet the *Banca Commerciale,* probably under the benign influence of the old friendship between director Goldmann and attorney Saragat, merely transferred young Saragat to Milan, where in 1926 he joined the research department of the bank. The post was far more suited to his temper and interests than the regular banking job at Torino. For the time being it looked as if the bank's patient wisdom would bear fruit: Saragat became politically less active.

The year 1926 in more than one sense was the most decisive year of Saragat's life. Apart from his marriage it brought him political exile as well. For when it became clear that all Socialist leaders had become marked men of the Fascist regime, Saragat made his decision. He might have abandoned politics and become a paterfamilias with a fairly good future in the *Banca Commerciale*. Instead he resolved to remain faithful to his political creed irrespective of the consequence. He crossed into Switzerland on foot, by secret paths, leaving behind him his wife, his friends, his job. After the child had been born, young Giovanni Saragat of today, mother and child made their escape from Italy. Reunited with them and still under the powerful protection of the *Banca Commerciale,* Saragat found a position with a Vienna affiliate of the bank. He stayed there for three years, working quietly and inobtrusively, and mastering German at the same time. In Vienna his second child, Ernestina, was born in 1929.

With the rise of the reactionary tide in Austria, the atmosphere in Vienna became decidedly unpleasant for political émigrés of his type. The Austrian flirtation with Mussolini got underway and might have produced the surrender of Italian political refugees to the tender mercies of the Fascist police. France, the great asylum of so many lost souls, political and otherwise, became the new domicile of the wandering Saragats. For the first time the *Banca Commerciale* seemed unable, or perhaps by this time unwilling, to do

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anything for its old protégé. Life in France was no bed of roses. After holding a number of transient jobs, Saragat for a while was chief bookkeeper of a wine and liqueur firm, the *Paris-Medocq*. The earnings seem to have been meagre, for Mrs. Saragat was forced to resume her former profession as a seamstress. Years of exile passed. The Italian underground continued its brave but seemingly hopeless fight against Mussolini. Saragat's father had died, his two brothers were dead. He himself was formally outlawed by the Italian authorities.

Meanwhile, a fateful change has taken place. Mussolini, after the Ethiopian venture of 1935-36, broke with Italy's old Western allies and sought the support of Germany's Nazi boss. Still, Saragat remained a "displaced person."

The blatant and pious talk at pleasant-mannered banquets among the diplomats and the super-social-service-workers of the Western world deludes too many willing victims. The stark fact remains: national egotism everywhere, shortsighted as it is, has raised xenophobia to a level reminiscent of the cave manage. The louder the talk of the brotherhood of man, the less it is practiced. With war clouds thickening fast in 1939, Giuseppe Saragat had few illusions about the fate awaiting refugees at the hands of French officialdom should war break out. When it began, Saragat at once installed his family in St. Gaudens in the uttermost south of France, joining it after the French surrender. For two years he lived there in hiding, escaping even the vigilance of the Gestapo after the complete occupation of France in November, 1942. While Benes headed the Czech government-in-exile in London, Saragat remained an obscure Socialist whom few knew but whose quiet steadfastness inspired the respect of his Italian colleagues.

On August 2, 1943, Saragat slipped back into an Italy which, according to radio news, had shaken off the Fascist yoke and was ready to join the Western powers once more. He soon found out that Badoglio's police differed little from that of the fallen dictator. Between Susa and Torino he was imprisoned for 12 days, and was freed only by the intercession of powerful friends at Torino, non-socialist friends to be sure. When the armistice was signed on September 3, he moved on to Rome, which at that time was still firmly occupied by the Germans. Again, Saragat went underground, only to be arrested and lodged at Rome's famous Regina Coeli prison, whose register listed him as "communist ringleader," —Saragat of all men! Just before the Gestapo got around to dealing with him in its well-known manner, the Italian underground obtained his release by means of a forged order, addressed to the prison authorities. Immediately he resumed his work from a new hiding place editing the underground newssheet, *Avanti*. Not until June 4, 1944, did he emerge into the limelight of Italian politics, but then he advanced with dazzling rapidity. When, after the fall of Rome, the first cabinet of Bonomi was organized, Saragat became a cabinet minister, albeit without portfolio. He was ready for the crucial test of his career: the showdown with Russian-ruled Communism.

III

At first after the liberation of Italy, all seemed peace and harmony. Communists sat sweetly in cabinets alongside their despised Socialist brothers, not to mention even outright partisans of "decadent capitalism." In the same degree, however, as relations between Russia and the big powers deteriorated, the coalition cabinets went on the rocks. In the ensuing struggle, the Social-Democratic parties and the trade unions played an important role everywhere. In France and Italy the Communists had managed to obtain control of most unions, but the rank and file of the workers remained split. In the political arena the Communists made every effort to lure the Socialists into the death-trap of popular or "democratic" fronts which would present a united front against the "undemocratic," i.e. non-Socialist, elements in each country. Such alliances were formed by shotgun weddings wherever Red armies controlled a country.

In Italy, where, as in France, the Red Army had no encampments, special efforts were being undertaken to lure the Italian Socialists into a united front with the Italian Communist party. A brief chronological record of Saragat's career since 1944 reflects the trend quite well: in December, 1944, Bonomi re-

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signed when the Socialist party left the government. Soon afterwards Saragat became Italy's first post-war ambassador to France (1945). About a year later he resigned in order to re-enter Italian politics actively. The reason was interesting. In the meantime the Socialists had re-entered the Italian government, then headed by Ferruccio Parri (June-December, 1945), and it was Pietro Nenni, enamoured of united front plans, who led the Socialist contingent of ministers in that cabinet. After De Gasperi had replaced Parri as prime minister (December, 1945), the Socialist party was torn by the struggle whether or not to form the Communist-proposed alliance. At the party congress in April, 1946, in Florence, Saragat's autonomist faction prevailed, i.e. the foes of the united front had won the first major skirmish within the Socialist party.

The elections of June 2, 1946, provided Italy with an indecisive new cabinet under De Gasperi. The Socialist and Communist parties still were at least officially on friendly terms, cooperating, for instance, in the municipal election in Rome. But in January, 1947, the tension within the Socialist party over this suicidal policy had reached such heights that the "Saragatists," as they came to be called, refused to abide by the newly adopted policy of united front collaboration with the Communists. The quiet man from Torino had the courage to break the party in which he had worked for so many years rather than join Nenni and his faction in submitting to the domination of the Kremlin-inspired Togliatti and the Communist party.

Even after the secession of the Saragatists (who formed a new Socialist party), Nenni remained in the De Gasperi cabinet, although his prestige had obviously suffered a set-back through the split. The critical break between the Communists and their straphanging Socialist fellow-travelers on one side and the rest of the Italian parties on the other finally occurred in May, 1947. All Communist and Socialist ministers resigned, leaving De Gasperi in a very shaky position. It was obvious that the Italian premier sought at least a token by which to demonstrate that he was not wholly anti-labor or anti-Socialist. In consequence he approached Saragat, and eventually in December, 1947, Saragat (as vice president of the council) and Pacciardi entered the fifth De Gasperi cabinet. In the meantime Saragat paid his first visit to the United States. In June, 1947, he had attended the Cleveland congress of the Italo-American Labor Party. The decisive question which remained for him to be settled was the reaction among the Socialist voters to the split of their party. Would they follow Nenni's path to the red lion's den or would they support the sober evolutionary socialism which Saragat proposed, a socialism which could be achieved by democratic means and, most important of all, with the preservation of those individual liberties whose guarantee was the most precious accomplishment of the bourgeois era?

When the Italian government called for the first general elections under the newly adopted Italian constitution, the Nenni Socialists, in possession of the old party machine, concluded a hard and fast alliance with Togliatti's Communist party. Enormous funds from obvious sources enabled this "democratic front" to wage a propaganda campaign of unprecedented proportions. From the smallest hamlet to the biggest towns, the posters of the red bloc dominated the scene. Loudspeakers mounted on cars, innumerable meetings and demonstrations, and bloodcurdling anti-American whispers were added to give the general impression of certain victory at the polls. "Who votes for Saragat votes for De Gasperi" was one of the more reticent attacks against the dissident Socialists. Far more violent ones included reproaches alleging betrayal of socialism, disloyalty, venality, and worse. The only party which met this propaganda onslaught at least in part was De Gasperi's Christian-Democratic Party. The Saragatists, obviously handicapped by the lack of a well-established party organization and the dearth of funds, confined themselves chiefly to the holding of public meetings. Under a general political truce agreement in which the red bloc participated, these meetings were for the most part tolerated. Otherwise there was very little evidence of Saragatist activities.

American journalists, misled by the visible signs of red activity, cabled and wrote gloomy predictions about the coming elections. Italian government circles may also be suspected of having encouraged these sentiments in order

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to obtain even larger political and economic support from Washington. When, however, the votes were counted, the result amazed the prophets. The Christian-Democrats received a majority in both houses, almost all anti-red Italians having cast their ballots for them, while the reactionary, as well as the liberal parties, were almost wiped out. The greatest personal triumph, however, was Saragat's. Not only did his party poll about two million votes, but in addition those votes came from the very strongholds of north Italian industrial towns in many of which the Saragatists ran a very close second to the combined forces of Nenni and Togliatti.

The disaster of Nenni's policy became even more manifest, when the seats in the lower house were assigned according to a pre-election agreement between Nenni and Togliatti. The Communists obtained more than 140 seats, while the Nenni Socialists had to be content with thirty-odd seats. What hurt even more was the fact that the Saragatists single-handed had won almost as many seats in the new chamber as the Nenni Socialists. Even so the outcome was a debacle for the split Socialists whose combined wings number less than seventy as against more than 140 Communists, giving the Communists more than a 2:1 majority in the leftist camp.

For that reason the blasts of joy with which the American papers greeted the outcome of the Italian elections were just as foolish as their previous predictions of a red victory. The Italian political situation remained very tense indeed. Saragat for one was not fooled. He did not rest on his laurels. The battle between East and West in Italy, in his opinion, was and still is far from its conclusive stage. But of all those who gave battle to the Communist menace in Italy he has been the most successful so far. The spoils of his victory were three cabinet posts, one for himself as vice president of the council, this time, however, coupled with the ministry of the merchant marine, one of Italy's most important cabinet posts; two other seats in the cabinet went to two trusted Saragatists as well.

More gratifying still has been the result of the recent meeting of the Socialist parties represented in the Second International (as opposed to the Communist Third International). The meeting was held in Vienna about six weeks after the Italian elections. It denounced the "United Front" policy adopted by the Socialist parties of Russia's satellite states and for all practical purposes excluded them from the Second International, at least for the time being. The Nenni Socialists, although still the official Italian member in the International, were given an ultimatum: unless they abandoned the Communist alliance in Italy and joined the Saragatists, the latter would become the sole recognized Socialist Party of Italy within the Second International.

The months and years to come will be critical ones. As members of a predominantly non-Socialist government, the Saragatists will have to show their voters tangible results of evolutionary Socialism. Agrarian reforms, labor legislation, and industrial policies of the Italian government may well be too cautious, too "Christian-Democratic." If this turns out to be the case, the next elections, or even popular unrest before then, will destroy the progressive and democratic plans of Saragat. The East may then still win the battle for Italy. For the American public, however, and even more for the actual molders of our foreign policy, it cannot be repeated too often that our most valuable allies in Europe in our effort to contain the Communist tide are the European Socialist parties of which Saragat's is one of the most promising ones at the moment. They alone offer a hope of holding at least a large section of the labor vote which otherwise would almost solidly go to the Communists. We may well oppose socialism at home, but the paradox nevertheless remains true that one of the most important means of saving what is left of the American system of free enterprise, if, indeed, it can be saved, is to support the Socialist parties of Europe this side of the Iron Curtain. Men like Saragat have shown that even under very difficult conditions the courage to stand up to the Russian Goliath pays dividends. There are men like him everywhere in western Europe. Among them is Léon Jouhaux who is trying to do in France what Saragat has been doing in Italy. With him and his *Force Ouvrière* the next article will deal.

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EX-GOD OF JAPAN

By LAFE FRANKLIN ALLEN

Hirohito becomes a man

MUCH of the credit for the success of the Allied occupation of Japan must go to Douglas MacArthur, described frequently of late as a man turned god in the eyes of many Japanese. But in seeking reasons for the docile and cooperative behavior of our one-time enemies, the activities of a god turned man must not be overlooked. That man is Emperor Hirohito, who has done all within the power of any mortal to disabuse 78 million Japanese of the myth of his divinity.

By his New Year's rescript of 1946, denying his celestial descent, the erstwhile Son of Heaven withdrew as religious head of the people and the state, leaving a vacuum which Citizen Hirohito has been striving manfully to fill. As no other emperor in Japan's long history, Hirohito has mingled with his subjects on scores of occasions since he publicly branded the Japanese idea of the emperor's divinity as a "false conception."

Today when Hirohito pulls out of his moated palace grounds in the heart of Tokyo for one of his many "meet the people" junkets, he still rides in a shiny Mercedes-Benz. This is about the only link, however, to pre-war years. No longer is he accompanied by an entourage of armed uniformed guards. No longer are Japanese cleared from above the first floors of buildings along the emperor's route lest one of them commit the sacrilege of looking down on the royal personage. No longer do officious little Japanese police herd the press around.

In the best American political tradition, Hirohito seems vitally interested in whatever he is inspecting. For example, when he visited a silkworm egg producing station in Numazu, he peered sagely through a microscope at one of the specimens. Stopping for a look at a stud farm during a two-week tour of northeastern Japan, the emperor dutifully pitched hay to the prize stallions. On his numerous visits to Japanese schools, he chats pleasantly with his youthful subjects, inquiring with seeming solicitude about their educational progress. During his factory tours Hirohito often stops to question and encourage the workers, who are generally glassy-eyed with excitement and fright.

As might be surmised, Hirohito does not always see typical conditions on his inspection trips, although the shattered remnants of his once thriving empire cannot be hidden from him. When he visited a Yokohama fertilizer factory, a flower-bedecked reception tent made things easier for the royal nose. On the day of his scheduled inspection of one of Japan's large truck manufacturing companies, the assembly lines weren't started until the emperor neared the factory. Bedeviled with material shortages, the plant officials took no chances of running out of something to assemble when Hirohito was on deck. When he descended into a Japanese coal mine recently for a close-up of operations, the grimy miners, who ordinarily work attired in nothing but G-strings, donned shorts for the historic event.

Nothing exemplified more clearly the striking contrast of Hirohito's role in war and peace than did his appearance last spring at Japan's east-west all-star soccer game at Tokyo's Nile Kinnick Stadium, where he did everything except kick out the first ball. Followed by chubby Crown Prince Akihito, the emperor strolled onto the playing field after the game to congratulate the players of both teams. As G.I. camera bugs clicked away happily, the captains of the opposing teams were

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urged by the Japanese ruler to bend every effort toward creating a sports revival in his shrunken empire. Hirohito's previous visit to the stadium—it then bore the name of his illustrious grandfather, Emperor Meiji—occurred early in the war, when uniformed and bemedalled Japanese generals and admirals flanked the monarch, and massed military bands trumpeted a brassy welcome to the royal party.

A national disaster—and Japan has more than its share—is the cue for Hirohito's appearance among the sufferers for whatever solace they may derive from the realization that their ruler is aware of their plight. Last September, for example, the emperor cruised through the roiled waters of the flooded Kanto plain north of Tokyo, where some 1,500 Japanese had lost their lives. Hundreds of glum householders huddled on their rooftops, gazing disconsolately at the emperor as he chugged by in his small launch flying the imperial ensign, a golden chrysanthemum on a scarlet field. The monarch stopped on several occasions to express personally to his subjects his regret at their misfortune. Four persons riding in a tiny craft narrowly averted a ducking in the muddy flood waters as they leaped to their feet simultaneously to bow as the emperor's boat passed them.

Another precedent in Japanese history was shattered last summer when Hirohito, accompanied by his wife, Empress Nagako, attended a baseball game in Tokyo. Clad in a cream-colored summer suit, the emperor tipped his sailor straw affably as he acknowledged the cheers of the 50,000 spectators. Before game time the umpires and the two teams lined up in front of the royal box, removed their caps, and bowed solemnly. The teams then bowed to each other. And in a final show of un-American obeisance, the players bowed to the umpires. The fact that Hirohito took his wife out to the ball park like thousands of other husbands so enthralled *The New York Times* that it observed editorially:

> The emperor is an important figure, though not so important as General MacArthur, but he is no longer a god. On Sunday he took his wife to a baseball game —the first they had ever seen. We do not suppose Hirohito suggested killing the umpire or that he so much as threw a pop bottle at him. But he must have felt a new pleasure, sitting in the sun, sucking in his breath at three-base hits, and being human again.

That Hirohito enjoys his unprecedented contacts with his subjects is apparent. And that his people reciprocate is likewise evident. Wherever he goes the Japanese monarch is accorded a tumultuous welcome. When he appeared before the imperial palace at a ceremony in which Japan's new anti-war constitution was promulgated, an estimated 200,000 Japanese thundered their "banzais." According to the Associated Press account of the ceremonies, "thousands rushed through police lines for a closer glimpse of the once sacrosanct ruler. They surrounded his carriage with a sense of loyalty tinged with one of equality." When Hirohito visited the once great Japanese industrial center of Osaka, one woman was trampled to death as a vast throng broke through the police cordon to crowd around him.

HIROSHIMA

Even in devastated Hiroshima, where the atom-bombed populace had little reason for greeting him with warmth, Hirohito was received on the sixth anniversary of Pearl Harbor by a wild, cheering throng of 40,000.

Standing alone and unattended on a raised platform in the center of the area obliterated by the atom bomb, Hirohito, in an unprecedented and unexpected address, pledged that Japan would never again pursue policies which might be climaxed by another "Pearl Harbor." As Australian military police struggled alongside local authorities to control the enthusiastic thousands, Hirohito expressed deep personal sorrow at the disaster which befell Hiroshima and added that the people of Japan "must work to contribute to world peace and rebuild the country."

Not to be outdone by her husband, Empress Nagako is doing her bit to identify Japan's royal household with the needs and aspirations of the people. She makes frequent visits to hospitals and orphanages and became honorary head of the Japanese Red Cross. It was in

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behalf of this organization that the empress made her first radio address. She also accompanies her husband on many of his visits to the Japanese hinterland. Unwittingly, perhaps, Nagako recently proved herself as human as millions of other women when she was snapped by news photographers, her slip showing a full inch.

Nor are the younger members of Hirohito's menage overlooked in the post-war program of humanizing and popularizing the Japanese dynasty. Akihito, Prince of the August Succession and Enlightened Benevolence, is receiving what is purportedly the most democratic education ever afforded a Japanese prince of the royal family. The 14-year-old youth, slated to become Japan's one hundred twenty-fifth emperor, goes to school with 160 other boys instead of receiving his schooling within the palace walls from fawning tutors, the traditional manner of educating Japan's princes of the blood. Mrs. Grace Vining, of Philadelphia, who teaches Akihito English, declares that she is genuinely fond of her charge. "He is alert, intent, and has a good approach to his studies," said Mrs. Vining. "He also has a good sense of humor." Akihito's three sisters, Kazuko, Atsuko, and Takako, and little brother Masahito were packed off to the country for a vacation recently where, at the emperor's instructions, they did all of their own housekeeping and cooking.

Under the new Japanese constitution Hirohito is now nothing but a figurehead who stands as a symbol of state unity and who derives his position from the sovereign will of the people. This is quite a comedown for an individual reputedly descended from the Sun Goddess Amaterasu-o-Mikami, the "Heaven-Shining-Great-August Diety." But Hirohito seems to relish his new constitutional position and misses no opportunity to whip up the flagging spirits of his fellow countrymen. Japan's ex-god even takes to the radio on occasion, and in his high small voice he exhorts his people to forget their selfish desires and to strive to build a peaceful nation.

Not only has Hirohito been shorn of his sovereignty by Japan's new constitution, but as part of the current program to break up the concentration of great wealth in Japan, confiscatory capital gains taxes have cost the Japanese ruler such material possessions as his forests, fisheries, and revenue-producing securities. Today the emperor is dependent upon appropriations by the democratically elected national legislative assembly for yen to run the imperial household. His straightened financial position necessitated a 50 per cent slash in officials of the royal household, forcing Hirohito to scrap among other things the Imperial Poetry Bureau, which for years has conducted the emperor's annual poetry contest. This year hundreds of Japan's "tanka" poets, writers of classical 31 syllable verses, were required to submit their literary creations to the Imperial Library Bureau.

Whenever V.I.P.'s visit Japan nowadays they usually wind up with an audience with Hirohito, who never fails to impress upon his callers Japan's desire for peace and international cooperation. For instance, he told Robert McLean, president of the Associated Press, and two other American newspaper executives that he hoped "you will report conditions in Japan as you find them because I believe such a report will contribute to international understanding and good will." To Roger N. Baldwin, director of the American Civil Liberties Union, Hirohito expressed his faith in the United Nations, peace, and General MacArthur's conduct of the occupation.

To say that Hirohito enjoys the wholehearted support and admiration of all the Japanese would be a misstatement of fact, although he probably comes nearer to attaining the goal of universal popularity with his people than any ruler or head of state in the world today. Those who oppose the emperor and the emperor system—and Japan's small but clamorous Communist party exemplifies this point of view—are perfectly free to make their opinions known without fear of cooling their heels in a dirty Japanese jail as a consequence. This fact, above all others, in the opinion of this writer, most clearly dramatizes to the people of Japan the privileges which they enjoy under a democratic form of government. It is a lesson in freedom of speech and thought obvious to all but the most obtuse.

The Communist organ *Akahata* (Red Flag) made journalistic history in Japan when it published a savage caricature preceding Japan's first post-war national electio

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reading political implications into Hirohito's many trips of inspection and observation. The Japanese monarch was depicted bowing, his hat raised. The caption read: "The emperor as he appeared on the streets—'Is it that you haven't enough food? Ah so. But you'll give due consideration to Us and to Our parties at the time of the elections, won't you please?'"

Nor have leaders of Japan's Communist party, such as Sanzo Nozaka, pulled their punches in their anti-Tenno utterances.

"Japan's feudalistic, despotic, and imperialistic and totalitarian blocs, headed by the emperor and supported by the military, bureaucrats, plutocracy, and established land owners, have carried out criminal war," Nozaka declared upon his return to Japan from a 16-year exile in Russia. "They have led the land, nation, and culture of Japan to destruction. And they are responsible for the atrocities committed to and devastation caused in Japan's neighboring nations as well as to the Allied peoples. If they are suffered to continue to exist, they are likely to become harmful to the perpetuation of world peace as well as to rehabilitation of the Japanese race."

Not only did Nozaka castigate the emperor system with impunity, but the newspapers of Japan gave wide circulation to his barbed comments, which gives some idea of the freedom enjoyed by the Japanese press today.

In their "letters to the editor," which have become a standard fixture of post-war Japanese journalism, Hirohito, along with overbearing policemen and bureaucratic civil servants, gets his share of attention. A resident of Tokyo, for example, taking a dim view of the emperor's inspection tours, made known his displeasure to *Asahi,* one of the two great nationally circulated dailies of Japan:

> The visit of the emperor to many places recently is doing nothing but dazzling the people. He proclaimed that he was not god but a human being only after Japan lost. This is hypocrisy; people were deceived. If the emperor loves the people really and truly he should give all his property for the use of the people in apology for what he has done in the past. Life is impossible under the present emperor system and so we cry out for abolishing the system.

Under our occupation policy we left to the Japanese the problem of what to do with their centuries-old dynasty. And our former enemies have worked out the solution to this problem to such a point that General MacArthur recently termed the emperor system a dead issue in Japanese politics.

Whether or not Hirohito is truly a democrat who stands as a symbol for a new democratic Japan is subject to as many divergent points of view as was the highly controversial war-time topic of what we should do with the emperor once our armies had beaten the Japanese to their knees. Lawrence K. Rosinger, in a report written for the Foreign Policy Association, declared, "On the basis of developments so far, it would be an illusion to think that he [Hirohito] is now a force for a peaceful, democratic Japan." On the other hand, Roger Baldwin, who after directing the American Civil Liberties Union for 30 years ought to know a liberal when he sees one, had this to say about Hirohito, with whom he conferred during his visit to Japan last year:

"Was he really a liberal and a democrat? I could answer that he struck me as both, and a simple, unassuming, and gentle character as well."

I don't profess to know whether the stooped, myopic little man who spends his days touring his war-scarred land, clucking sympathetically at the hardships endured by his subjects, differs basically from the fierce caricatures which flowed from the drawing boards of America's cartoonists during the war. I have seen enough evidence, however, of the deep regard and affection held by the Japanese for their emperor to understand readily why they have complied so satisfactorily with Allied orders in accordance with imperial wishes. And I have seen enough examples of the propensity of the Japanese for following the leader to be glad that Hirohito is acting like a democrat today even if he isn't one.

Men are like wines, age souring the bad and bettering the good. —*Cicero*

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The story of P. L. 395

INFLATION CONTROL

I. The 1947 Act

By VICTORIA SCHUCK
Professor of Political Science, Mount Holyoke College

ELEPHANTS and women are reputed never to forget, but politicians are notoriously short-minded, especially in a campaign year. With wholesale prices leaping to the highest point ever, with the cost of living soaring upward, with Congress meeting in special session to cope with the problems of inflation, the bewildered voter might well ask: "What happened to the 'stabilization act of 1947?'" Was it a mere concoction of patent cures, a mixture of palliatives or sedatives, compounded in the hope that "natural forces" would right inflationary ills? Or was the measure mislabeled?

The circumstances surrounding the passage of the resolution are familiar. The President's Food Committee was exhorting us to wheatless, meatless, eggless days. The Harriman and Krug Committees and the President's Council of Economic Advisers had concluded that we had the natural resources, the productive capacity, and the over-all economic stamina to provide aid to Europe but that controls of commodities in short supply would be needed.

In view of these warnings and the political and economic developments in Europe, the President recalled Congress to Washington in November to grant interim aid and to give the administration powers to cope with inflation. His ten point program centered on a renewal or revival of certain compulsory powers which had been employed to govern the war economy. These included selective price controls, wage ceilings, allocation and inventory control of scarce commodities, the rationing of cost-of-living items, food conservation, consumer and bank credit restraints, and the extension of export controls. (See *Forum*, "Congress Debates," January, February, 1948.)

The Republican leadership in Congress branded the Democratic proposals "totalitarian." Republican philosophy taken from the Policy Committee's statement of the time displayed an abiding faith in increased production and reduction of "unnecessary" federal spending as methods of curbing inflation. Another tenet was tax reduction. And if bottlenecks in production occurred, industry should have enough altruism to break them voluntarily. It was not until the 1948 special session of Congress that Republican philosophy embraced consumer credit regulation and greater bank credit control as justifiable anti-inflation weapons.

Responding to President Truman's message, Congress first voted stop-gap aid, and in the four days before the Christmas adjournment, jammed through the stabilization resolution which became Public Law 395. In retrospect, its passage appears almost fortuitous. The resolution was debated continuously for three days in the Senate, at one time almost six hours in a stretch, with no restrictions on the offering of amendments. From there it went to the lower house which had already refused to consider a similar draft with a gold reserve clause attached. On the last day of the session, the Rules Committee brought in a gag rule, allowing one entire hour for debate with 30 minutes to each side. The Senate version passed the House without change, but once having reached the White House, it mysteriously disappeared. And while waste-paper baskets were sifted to no avail, another

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copy had to be prepared for the signatures of the presiding officers of the two houses and even flown to Massachusetts for Speaker Joseph W. Martin's signature. Finally the President signed the new copy on December 30, 1947.

Loosely drawn and hastily considered, the final draft, in the course of amendment on the Senate floor, picked up two inconsistent clauses on the time limit of voluntary agreements. The core of the resolution was drafted by Jesse P. Wolcott, of Michigan, Chairman of the House Banking and Currency Committee and about a dozen Republicans including Senator Robert A. Taft, of Ohio. Taft introduced it in the Senate, managed the debate, and more than any other person, is responsible for its ultimate form. The law contains additions and subtractions made by the Senate Banking and Currency Committee; Republican senators, Ralph E. Flanders, of Vermont and Raymond E. Baldwin, of Connecticut; and minority leader, Alben W. Barkley. Several clauses were lifted from Commerce Secretary W. Averell Harriman's bill.

DEMOCRATIC EFFORT

The strategy of Republicans and Democrats alike was conducted with an eye cocked toward the 1948 presidential campaign. Democrats in both houses made efforts to put "teeth" into the measure by the insertion of stand-by controls, but Republican majorities rejected them. Republicans themselves were not united in support of the proposal. While the Democrats dubbed the resolution "feeble," they took credit for improving and strengthening it. Furthermore minority members who voted in favor of it exculpated themselves by stating that they were "not willing to throw any straw in the way of any effort which may be made" to remedy the economic unbalance. If the vote in either house had been along strict party lines, the measure would have carried by close margins. But as it was, the resolution received generous bipartisan support and collected large votes.

Truman's attitude was that the bill passed along the problems to the chief executive without the power to deal with them. It incorporated three of his ten point requests and a fourth which he and the Secretary of Agriculture had wanted later because of grain shortages. On two other points he had authority to attempt voluntary agreements.

Were it not for an increasingly vigorous administration of the voluntary agreements program in the Commerce Department in subsequent months, the law might have fallen into oblivion. Republicans tend to gloss over it. Thus Charles A. Halleck, House Republican leader, in his July, 1948, summary of accomplishments of the Eightieth Congress did not mention it. While Barkley emphasized its meager results in his legislative summary, Taft and Wolcott merely listed it. Taft's estimate, together with clues for the probable future of the law, can best be conveyed in the following quotation from an interview with the author on July 28, 1948:

> Q. Senator, how would you evaluate Public Law 395? (Identification by number is rare, but its daily use in conversation by administering authorities led the author to use it automatically.)
>
> A. What is 395?
>
> Q. That is the anti-inflation law sponsored by you.
>
> A. I don't know what they are doing about it.
>
> Q. The Department of Commerce is engaged in working out voluntary agreements on steel and other short commodities. . . .
>
> A. The law has made it possible to prevent the need for compulsory controls.
>
> Q. Are you satisfied with the operation of the act?
>
> A. It has accomplished the purpose it was intended for.
>
> Q. Will you ask for renewal this session?
>
> A. No, it doesn't expire until February, 1949. There will be time enough to ask for renewal in the next Congress.

Whatever may or may not be remembered by the authors of the legislation, opinion inside and outside Congress wavers on proper correctives. For example, sore spots in steel shortages have come to the attention of the House and Senate Small Business Committees and the House Interstate and Foreign Commerce Committees. But when the President was suddenly vested with compulsory powers over steel producers by the Ploeser rider to the 1948 Draft Act, he veered in support of voluntary agreements as the preferable method

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of meeting the steel requirements of firms having orders for the armed forces.

The declaration of purposes is couched in hopeful, helpful terms—"to aid" in stabilization, "to aid" in curbing inflation, "to promote" equitable distribution of goods. No guarantees are made to solve inflationary problems.

The law extended export controls for a year, until February 28, 1949. This was a presidential request. Price was introduced as one of the criteria for licensing exports. The argument had won that we should eliminate gray markets and save ourselves embarrassment in South America. If exporters with the lowest prices were not given preference, they could bid away our supplies and at the same time deplete dollar exchange by inflating world prices. Space permits only two observations on the administration of this section. Conflicting reports on steel exports have aroused suspicion in legislative quarters. Price criterion as a substitute for "historical basis" has proved unsatisfactory to small manufacturers. Because their unit costs are higher than larger companies, they run the risk of being frozen out of world markets.

Shortages led to the continuation of transportation controls for another year. Accordingly the Office of Defense Transportation determines loading requirements for carload freight and the like, in order to obtain full use of transportation equipment.

Two presidential recommendations, which Barkley drafted in collaboration with representatives of the State and Agriculture Departments and agricultural organizations, and which he succeeded in adding to the law by floor amendment, concerned food and feed conservation. The Commodity Credit Corporation received authority to carry out programs to increase food production in non-European countries. A time honored procedure employed by the British Parliament and occasionally used in this country to scrutinize administrative action was written into the measure. Thus the Secretary of Agriculture must submit the plans to Congress. If they are not disapproved within 60 days, the programs can be executed.

The other Barkley addition gave the voluntary food program instituted by the President's Committee a more permanent status. The President could spend up to a million dollars, through national and state agencies designated by him, on an educational and informational campaign to conserve food and feed.

The law also authorized a 30-day revival of the President's war-time power to ban the use of grain to distillers. Negotiations to extend the moratorium destined to expire December 25 had failed, and it was thought that this short period would allow for a renegotiation of a voluntary agreement or a legislative continuation of mandatory powers. Each idea failed, although the Secretary of Agriculture effected a saving for a month by limiting the amount of grain for alcoholic purposes. Twice the Senate approved proposals to continue such limitations, but both the Kilgore bill and the Flanders resolution were buried in the House Banking and Currency Committee. Judicial backing came shortly before the expiration of the provision. A three judge federal court upheld the constitutionality of grain restrictions in a case brought by the Schenley Distillers Corporation.

VOLUNTARY AGREEMENTS

However important the foregoing sections, the central provision of the anti-inflation law, in the minds of the Republican leaders was the section authorizing voluntary agreements. The purposes, "to aid" in curbing inflation and "to promote" orderly distribution, were translated into presidential authority "to consult" with industrial, business, and agricultural representatives "with a view to encouraging" the making of voluntary agreements in the following fields:

(1) allocation of transportation facilities;
(2) priority allocation and inventory control of scarce commodities which are basic to the cost of living or industrial production;
(3) regulation of speculative trading on commodity exchanges.

Compliance meant that participants in the plans would be relieved of anti-trust prosecution.

The voluntary plan came in part from administration spokesmen. Secretary Harriman and Oscar Chapman, Under Secretary of In-

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terior, in testifying on behalf of the Truman mandatory controls, implied that they wished to work out as many voluntary factors as possible. Harriman had pointed to the successful experience of the Department of Commerce in securing the cooperation of industry advisory committees during the war. And he and Chapman had noted that the anti-trust laws had served to inhibit industry from sitting down and discussing production and distribution questions without fear of jeopardizing themselves.

In effect, therefore, the Republicans sanctioned these voluntary factors and suspended the anti-trust laws to remove the inhibitions of business. And by inserting the Harriman draft for the Wolcott clauses, Taft surrounded the suspension of anti-trust suits with several procedures which at least offer the possibility of the rejection of agreements by the Attorney General and of informing the legislature and the public of what is being done under the aegis of agreements. When a government official (the President may delegate authority to any department or agency in the executive branch) decides that a voluntary agreement is appropriate, he may request in writing compliance by persons or corporations. The agreement must be submitted for approval to the Attorney General who in turn sends it to the President pro tem of the Senate and the Speaker of the House, and has it published in the *Federal Register*. Withdrawals of agreements follow the same procedure.

The language of the section on agreements is extremely vague. Whom will the President (or his designated official) consult? When? How? In a public or a private meeting? Are allocations for public (military needs or distressed municipalities) or private use, or both? Constitutional questions of inadequate standards in delegating authority to the executive are not apt to be raised, because no penalties for noncompliance are involved. Anyone objecting to agreements may resort to Congress for changes in the law or for public hearings before probing committees.

The Senate Banking and Currency Committee, in interpreting the scope of agreements, stressed that they should serve as a means of removing bottlenecks in the production of vital commodities. Taft excluded price fixing on grounds that maximum prices tend to become the minimum and to eliminate competition. He was not unmindful of the price issue for in the course of debate, he stated, "Let me suggest to the Senator (Barkley) that after all the crisis which we are meeting is that of high prices." Agreements in his opinion would have an indirect effect on prices by increasing supplies.

There is finally a curious provision in the act which savors of giving instructions to the President to draft legislation. Constitutionally, of course, he has the power to recommend measures to Congress. Specifically P. L. 395 states that if he finds a critical shortage threatening to jeopardize national welfare and security, he may prepare a measure with a conservation formula and submit it to Congress. The Joint Committee on the Economic Report would be required to hold hearings within 15 days and make a recommendation to Congress. Flanders, a member of the committee, who authorized the section, defended it as a means of expediting congressional consideration. But the reasoning raises much doubt in view of congressional procedures for handling legislation.

After signing the law, the President by executive order assigned the authority to make agreements on a functional basis to three of his cabinet departments and the O.D.T. To the Agriculture Department went the food and feed conservation program and the job of working out agreements on agricultural commodities and speculative trading on stock exchanges. To Interior went the task of handling agreements on fuels, gas, and petroleum products. To Commerce went the agreements program on priorities and inventory controls of scarce commodities affecting the cost of living or industrial production, other than fuels, agriculture, and transportation. If voluntary restraints can be made to succeed, they will contribute significantly to the democratic process.

The analysis of the law shows that its emphasis is upon increasing domestic production and providing for distribution. Its purpose is to assist in the correction of inflation. It provides no direct attack, no remedy.

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INSURANCE AND SECURITY

By ROBERT G. GROSS

Is insurance a racket?

HOLDERS of life insurance policies in America are paying several billions ($5,727,000,000 in 1946) in premium dollars each year. Are they getting their money's worth for such enormous payments? Are these billions in premium dollars buying the economic security we have been led to believe they would? Or has the institution of life insurance become a financial racket which is slowly strangling our collective economic security, while ostensibly providing individual families with financial security?

The interested policyholder will find a vast amount of arresting information in the reports of The Temporary National Economic Committee. Monograph Number 2 is a report of *Families and Their Life Insurance,* as held by 2,132 families in the metropolitan Boston area. Monograph Number 28 is a *Study of Legal Reserve Life Insurance Companies* in relation to the concentration of economic power.

Life insurance is written on the regular basis with premiums payable annually, semi-annually, or quarter-annually, or on the industrial basis with premiums collected weekly or monthly. There are three basic forms of policy contracts: term, whole life, and endowment. Under a term insurance contract the insurance is payable only if death occurs within the term period, which is usually five or ten years. The term contract does not include savings. It is for protection only and carries the lowest premium at which insurance is written. This low premium contract is not available under the industrial plan of insurance underwriting.

In a whole life policy the company contracts to pay the amount of the insurance whenever death occurs, or at age 96 if the insured survives to that age and has paid all required premiums. Premiums are paid throughout life, or a larger premium may be paid for a specified number of years, usually 20. Premiums are materially higher than on the term policy.

Endowment insurance is simply the whole life policy modified to mature at a pre-determined age prior to age 96. The premiums on this plan are the highest of all.

Both whole life, which endows at age 96, and the endowment plan are not pure protection, as is term insurance, because both plans combine a steadily decreasing amount of protection with a steadily increasing amount of savings, more commonly referred to as "policy reserve." The protection plus the savings always equals the face value of the contract. Hence whenever a death claim is paid on either the whole life or endowment contract, a considerable part consists of the policyholders own savings.

Insurance is written for the primary and ostensible purpose of providing financial compensation to the dependents of the insured in the event of the premature death of the insured. This is the sole justification for the purchase of life insurance. For this reason, many grave doubts have been raised about the wisdom of jeopardizing the insurance by tying it up with the insured's savings account. The life insurance companies have a great social responsibility to render the most efficient insurance protection at the lowest possible cost to the insured.

But T. N. E. C. Monograph Number 28 states: "It is sufficient to demonstrate how completely the companies as a whole have failed to adapt their agency organization to

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changing times and the present needs of their policyholders. . . . Company managements were on the whole completely ignorant as to conditions within their own companies which had a vital bearing on the efficiency of their agency staff and the quality of the service which it was rendering to the public."

The general attitude of company managements of growth for growth's sake leads to high-pressure salesmanship, maldistribution, overloading, and extremely heavy lapsation and surrender of policies before the purpose for which they had been purchased had been achieved. The report concluded that unless these evils of the present system are corrected immediately, "the time will have arrived when the social disadvantages resulting from the system as presently conducted can no longer be ignored."

In the investigation of the life insurance held by the 2,132 families in metropolitan Boston, it was found that 1,666 of these families were insured for a total of $4,069,385. Of the 1,666 families insured, 1,360 had family incomes of $599 or less, annually. Yet, $2,020,-158, or just under 50 per cent of the total insurance held by these families was written on the industrial plan, the highest cost insurance written! Moreover, this industrial insurance was concentrated in the ages below 20, and over one-fifth of the policies were written on children under ten. Worse still, 30.23 per cent of all industrial insurance held by these families was written on the endowment plan, which again was concentrated on the ages under 20.

It was found that 701 of the families carried only industrial insurance. In the 701 families were found 655 insured breadwinners and 1,694 other insured members.

Industrial insurance, 49.6 of the total insurance held by the 1,666 insured families, accounted for 64 per cent of the $125,794.26 paid in total annual premium charges.

The families least able financially were thus buying their insurance on the highest cost plans and paying the greatest relative premiums to carry even a moderate amount of life insurance.

Insurance held by the six members of the Kelly family is an example of the "confusion and carelessness frequently found in industrial life insurance holdings." The father and one son had jobs, and earned jointly $2,548 during the previous year, from which they paid $147.16 in premiums on 13 industrial policies totaling $3,250. Only two totaling $500 were on the life of the father, the chief breadwinner. In addition to the 13 policies in force, this family held 35 lapsed policies upon which premiums had been paid for two to three years. That this family needed the lowest possible premium insurance was shown by the fact that it was having difficulty in meeting the premiums; nevertheless 12 of the 13 policies were written on the 20 payment life plan and the other one was written on the 20 year endowment plan on the life of the youngest child!

The Jones family, father, mother, and four children, was paying out a total of $154.25 in premiums, or 18.1 per cent of the total family income! The 11 policies totaling $3,536 were all written on the endowment plan; four on the father's life totaling $1,416 were endowments at age 60, and the other seven were all 20 year endowments!

Obviously insurance sold and purchased under such conditions is neither sold nor purchased in terms of needs or income of the family in question. One agent testified that "because we get more (commissions) writing an endowment, we usually sell an endowment." Another agent testified that "the class of people purchasing industrial insurance can be sold anything if the installment is sufficiently small."

In other words, the very class of people who, because of their low income status, should be purchasing the very lowest premium plans of life insurance, are being sold the most costly type of insurance! The result of this high-pressure sales system in which the industrial agent struggles to solve his own financial problems first, is seen in the fact that 49.18 per cent of all industrial policies held by these families had been in force less than five years.

The T. N. E. C. report, in summarizing its findings, mentioned high-pressure salesmanship, excessive lapse, extravagant cost, overselling, and uneconomic distribution of policies in the family as "inherent evils" of industrial insurance, and added: "The conclusion is inevitable that industrial insurance has failed to

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fulfill its essential purpose. Either industrial insurance must be eliminated or the traditional method of conducting it must be drastically changed to eradicate its inherent weaknesses."

Is life insurance written on the regular plans, i.e. annual, semi-annual and quarter-annual premiums, doing a better job for the policyholders? In many respects, yes. Premium costs are not so extravagant, and purchasers are somewhat better informed, but even here the lapse and surrender rate is most alarming.

LAPSED POLICIES

During the ten year period, January, 1928 to January, 1937, $126,675,000,000 of life insurance was terminated. Of this astronomical total, only 21.59 per cent was terminated by death, maturity, disability, decrease, or expiry; while 78.41 per cent was terminated by lapse or surrender. Both lapse and surrender represent some loss to policyholders, since most companies make a surrender charge for policies so terminated. The total "gain from lapses and surrenders" listed by American life insurance companies in their annual statements during the period 1918 to 1937 is one and one-third billion dollars, or an average of $66,000,000 per year!

Let us remember that a life insurance policy which has terminated by either lapse or surrender is one which has failed to fulfill the primary purpose for which life insurance is purchased. In view of this record, can we say that even our regular insurance, as it is presently conducted, is bringing economic security to policyholders?

But the purpose of this investigation of life insurance by the T. N. E. C. was to inquire into the economic effects resulting from the vast concentration of the peoples' savings in the hands of life insurance company managements.

The Armstrong Committee of the New York State Legislature conducted a similar comprehensive investigation of the principal life insurance companies in 1906. In its report, that Committee stated: "No tendency in modern financial conditions has created more widespread apprehension than the tendency to vast combinations of capital assets." This report also made recommendations for correcting the evils then apparent in the huge pools of investment funds made available through the piling up of policyholders' savings in the insurance companies.

But like all such advice, the recommendations of the Armstrong Committee went largely unheeded by the great life insurance companies. So much so that Woodrow Wilson declared in 1911: "The great monopoly in this country is the money monopoly. So long as that exists, our old variety and freedom and individual energy of development are out of the question."

Another committee, The Pujo Committee, was appointed in 1912 to make another investigation. This committee reported: "Far more dangerous than all that has happened to us in the past in the way of elimination of competition in industry is the control of credit through the domination of these groups over our banks and industries."

"The dominant element in our financial oligarchy is the investment banker. Associated banks, trust companies, and life insurance companies are his tools. Controlled railroads, public service, and industrial corporations are his subjects," so said the late Louis D. Brandeis in writing of the facts brought out by the Pujo Committee. He showed also that investment bankers, like J. P. Morgan & Company "became the directing power in the life insurance companies, and other corporate reservoirs of the people's savings."; that Mr. Morgan paid about $3,000,000 for $51,000 par value (controlling interest) stock of The Equitable Life Assurance Society, a stock company capitalized at $100,000 at that time. Why did Mr. Morgan pay so handsomely for the controlling interest in this great life insurance company?

In spite of the Armstrong Investigation, the Pujo Investigation, and the T. N. E. C. Investigation, the concentration of the peoples' savings in the great insurance companies goes merrily on. The total admitted assets of all American life insurance companies has increased steadily as follows:

1906	$ 2,924,253,848
1916	5,536,607,483
1926	12,939,806,809
1936	24,894,316,359
1946	48,190,795,956

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Note how the total assets, in spite of depressions, have tended to double approximately in each ten year period. How long can this doubling process go on?

The ten largest companies hold approximately ten per cent of all life insurance company assets.

Between 1932 and 1938 the 26 companies covered by the T. N. E. C. foreclosed $669,559,000 of farm mortgages. The Metropolitan was "the biggest farmer in the Central States, operating over 7000 farms. . . . Enormous quantities of grain and livestock are handled each year, and the company is a large dealer in farm implements. During 1937 alone Metropolitan harvested 50,000 bales of cotton; 10,000,000 bushels of corn; 5,000,000 bushels of wheat; 6,000,000 pounds of peanuts, and 1,000,000 pounds of tobacco." These 26 companies held 2,752,000 acres of farm land in the State of Iowa alone.

These same companies also foreclosed on $1,229,849,000 of urban mortgages between 1932 and 1938. The misery generated by foreclosures became so severe that the conservative farmers in the corn belt organized themselves into the Farmers Holiday Association to put a stop to foreclosures.

With this ever-increasing amount of the peoples' savings flowing to the great life insurance companies, with the great Metropolitan alone having over $2,000,000 daily to invest, does the lone individual with his modest capital have a chance to compete in business? We learn from the T.N.E.C. report that in 1938 the 26 life insurance companies investigated held the following percentages of the total funded debts of the following great corporations:

Gulf Oil Corporation	100 per cent
Shell Union Oil Corporation	38.8
Socony Vacuum Oil Company	66.6
Standard Oil Company of New Jersey	23.6
Texas Corporation	8.25
Firestone Tire & Rubber Company	25.8
Goodyear Tire & Rubber Company	80.2
United States Rubber Company	100

Are these activities of the great insurance companies, acting in the role of savings and investment bankers, as well as life insurers, investing savings in the great industrial monopolies, conducive to individual economic security, freedom, and opportunity?

But this concentration of financial power goes even further. The T. N. E. C. report revealed that the "Big Five" life insurance companies: the Metropolitan, The Prudential, The New York Life, The Equitable Life of New York, and The Mutual Life of New York, had interlocking directorates with eight other insurance companies, with 23 large commercial banks, with 17 railroads, with 7 utilities, and with 13 industrial corporations!

This compact concentration of financial control and power makes its impact on our society not only through the vast pooling of the peoples' savings, and interlocking directorates, but also through state and national legislation.

Through an organization known as The Association of Life Insurance Presidents, the companies maintain a powerful life insurance lobby. The activities of this association are determined by an executive committee of 11 members, among whom are the presidents of the largest companies.

Mr. Robert L. Cooney, who represented the Association in Georgia for 15 years, testified that his legislative activities had been directed primarily to "killing" bills before they came out of committee, or even before they were introduced. By such lobbying activities only one bill adverse to the insurance interests had gotten onto the floor of the House of Representatives of the State of Georgia in several years. Mr. Cooney testified as follows: "I am going to say in passing that (admitting, of course, that we have been rather successful in heading off legislation) the method is to interest ourselves in key men before they are elected, to help them get elected, and then they owe us something instead of our owing them. That is the whole secret."

Information gathered by the T.N.E.C. indicated that where entertainment, distribution of legal patronage, or giving of assistance in campaigns for office failed, more coercive methods were used to influence legislation.

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"Mr. Cooney induced one legislator to withdraw his bill by having the latter's financial backer, the First National Bank of Valdosta, Georgia, wire him stating that the bill was 'detrimental to business interests of Georgia.' "

What about the policyholder's interest? The T.N.E.C. concluded that "No justification exists for a lobby carried on without adequate disclosure and financed with the funds of policyholders whose interests more properly should be guarded by the free judgments of their elected representatives."

The grave threat to our economic security is pointed up in the conclusion of the Committee's report. "An ever-increasing amount of the country's savings are flowing to life insurance companies. . . . Thus small businessmen and the average industrialist is denied access to this more important capital reservoir. . . . The life insurance companies, on the other hand, are finding themselves unable to put their funds to work. . . . Unless the life insurance companies can find methods by which the funds flowing under their control will become available as equity for the stimulation of new enterprises and accessible to the small and medium-sized businessmen, consideration will have to be given to the extent to which the insurance companies may longer monopolize and dictate the direction of the flow of the savings of the people."

But is it necessary that we combine our savings with our insurance protection? Shepard Homans, the Mutual Life actuary who compiled the American Experience Table of Mortality in the 1860's, said "no!"

If the reader would like to look further into the problem before he decides on his own program, he should read a small book by Mort and E. Albert Gilbert, *Life Insurance, A Legalized Racket.* Naturally, this study, published in 1936, is not recommended by the administrative personnel of the life insurance companies. He should also get the T.N.E.C. reports and study them carefully. Mr. Brandeis' little book, *Other People's Money,* is very informative.

Granting that there is much that is good and much that is wrong with out present system of life insurance, what are we to do about it? Must we wait for legislative action? Since the three comprehensive investigations mentioned above have not brought any great corrective changes through legislative action, obviously policyholders themselves must take definite, determined, intelligent action to guard their own best interests. But what can we do individually?

The Gilberts make a suggestion worthy of consideration: separate our insurance from our savings. If the policyholder is insurable, he can take out the lower premium term insurance. When he is assured of getting the term protection, the present high premium policies may be surrendered.

Here is what one policyholder, with over 15 years experience in the life insurance business, has done: he took out term insurance to provide the needed protection. Then he surrendered his old policies for their cash values and invested those savings in his home and in his cooperative which serves him.

If the millions of American policyholders would take similar action, draw their savings out of the great monopolistic insurance companies, and invest them in their own businesses, or pay off home and farm mortgages, a great change for the better would take place in our economy. Our savings will work for us if we put them to work at home; they will work for others if we send them away from home. Why not make our savings, as well as our insurance protection, bring us economic security?

One morning a lone Irishman was at work near the top of a telephone pole, painting it a bright green when the pot of paint slipped and splashed on the sidewalk. A few minutes later another Irishman came along. He looked at the paint, then at his countryman and inquired with anxiety in his voice, "Doherty, Doherty, hov ye had a himmrage?"

—*Capper's Weekly*

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Let's Get Out of Japan

By DENNIS McEVOY

NEXT to the Soviet Far East, and a China which might well become a part of it, the third major focal point of American interests in Asia is unquestionably Japan.

Here we are in absolute control of a nation of some eighty million people, hard working, frugal, highly susceptible to leadership, possessed of the only large-scale industrial plant in the Far East—outside the Soviet Union—and the know-how to make it work. The political climate is stable to a rare degree, a representative government is in power, and the scars of war are closing fast.

In the general military and strategic picture, Japan emerges as an enormously rich prize. Geographically, our former enemy is to Asia what England is to Europe. It will be recalled that England as an ally, coupled with her location, made possible the invasion and final victory over Germany. If the hopes and the prayers of all the world go unanswered, and we are again at war, most military men agree that Japan would make an unsurpassed staging area for land, air, and sea operations directed against the installations of an enemy operating from continental Asia. Already, in Japan, our occupation forces have built numerous new airfields, capable of handling our largest bombers, laid down new roads, and stored away vast quantities of surplus war materials. Here also are the best naval bases in the Far East equipped with excellent dry docks and repair facilities.

The manpower potential is even more impressive. Literally overnight, whatever power controls Japan could organize an already trained army of several million men. These are the troops we ourselves disarmed and demobilized and their names and addresses are on file in Tokyo.

The Soviets have shown themselves well aware of Japan's great value as a military quantity. They know also, that the Japanese, trained for centuries to follow blindly almost any leadership, could be used against us as easily as we could use them against the heterogeneous assortment of Mongols, Chinese, Uzbecks, and Tartars who would be thrown into battle by the Soviets in the event of war.

Therefore, the Russians are today conducting an all-out campaign for the possession of Japan. While the fight for China is military, Soviet offensives in Japan are of the "cold" or political warfare variety which proved so successful in the recent conquests of Czechoslovakia, Bulgaria, Rumania, Yugoslavia, and Poland.

All day long, powerful medium and short wave stations in the Soviet Far East blare anti-American programs into Japanese ears from a distance of only a few hundred miles. The chairman of the Japanese Communist Party, Mr. Sanzo Nozaka, who was trained for many years as a political agent in Soviet Russian schools, each month welcomes new Russian-trained Japanese agents, most of whom come in with repatriates from Soviet zones, and these are immediately assigned to training more propagandists and labor leaders. Japan's largest labor organization, her equivalent to our C.I.O., includes over one million five hundred thousand members, and it is Communist-dominated. Meanwhile, rumor agents and pamphleteers tirelessly circulate anti-MacArthur and anti-United States propaganda in Japan proper—such as the old canard that America had the atom bomb early in the war, that we did not use it against the Germans because they are a white people but reserved it for the Japanese because we wanted to wipe out the yellow race. In Japan, one of the most race-conscious nations on earth, the effect of this type of propaganda is devastating.

It is obviously of extreme importance to us that Japan does not go Communist. We have

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several advantages on our side. Early in the Occupation, the Communists made the great blunder of urging that the Emperor be hanged as a war criminal, and they soon found out that the overwhelming majority of the Japanese wanted to keep their tradition-soaked figurehead. Moreover, the Japanese bitterly resent the fact that their old enemy, Russia, entered the war in its final stages and stabbed them in the back just as they were toppling over after a long, hard fight. Lastly, the humane and enlightened policies of MacArthur's administration have won many converts.

But we are losing these advantages, and endangering the fruits of the occupation by treating Japan with the same lack of realism which has characterized our policies toward the Soviet Far East and China during recent years. Over a year ago, the man who knows most about it, General Douglas MacArthur, announced that the objectives of the occupation had been achieved, a final settlement with Japan should be made immediately, and the time had come for us to pack up and go home. Instead, we are still maintaining the occupation—at a cost to the American taxpayers of over a million dollars a day—and with it the atmosphere in which Communism flourishes best, economic depression and hostility toward those in power.

Japan today is little better than a vast poorhouse existing on alms from the United States. Worse, a small army of American civil servants, many of them hatched in New Deal brooderies, are interfering directly in all phases of Japan's political and economic life, perpetuating a system of strangling controls which keep Japan from getting back on her feet, and using the prostrate body of our former enemy for social experiments far beyond anything ever attempted in the United States. The following anecdote is typical. A high-ranking United States officer recently telephoned a young American lady who instituted Japan's new Labor Standards Act, protesting against some of its provisions as being radical in the extreme. The young lady answered, "This legislation is standard in the world's most progressive countries. Goodbye now."

It is the almost unanimous opinion of American businessmen that, if left to her own devices, Japan could return to a measure of self-

Holland in the *Chicago Tribune*

"About Time To Leave The Nest"

sufficiency far sooner than under the massive red tape of a military occupation. A stable and prosperous Japan would be the best guarantee against Communism that we could devise. United States government credits for food imports would be necessary for a few years to prevent starvation and unrest, but these sums could be paid back from proceeds of a foreign trade that would expand enormously once paralyzing controls are removed.

To those who fear that a stable Japan would constitute a threat to our own security, the answer is surprisingly simple. No nation can make war without oil, iron, or airplanes. Japan has neither of these indispensable raw materials and she has been denied even civil aviation by the Allied powers. A handful of coast guard vessels and a few port inspectors are all that is necessary to see that Japan keeps the peace.

Many Americans in Tokyo are unaware of the deep resentment which our former enemies are beginning to feel toward us, and the capital which Soviet political warfare is making out of this hostility. They lead a hermetically-sealed life, driving from American billets, after an American breakfast, in American cars to American offices where they give dictation to, or take it from, other Americans and return to their billets where they either drink

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American whisky with American friends or go see an American movie in one of the "stateside" theaters. After several years of this, they return home and speak glowingly of how the Japanese are being converted to democracy.

We cannot push democracy down another nation's throat, especially in a nation such as Japan where the roots of feudalism are very deep. The Japanese have lacked the historical experience of liberty and the personal experience of individualism, both indispensable well-springs of a truly democratic society. The best thing we can do right now to accomplish our desired ends is to follow the recommendations of General MacArthur and send home the army of American civil servants and troops.

Having given the Japanese a democratic constitution, and the means to go ahead on her own, we should stop playing God to the Japanese people and let them work out their own destiny within that established framework. Whatever will emerge will be of their own making and therefore it will stick.

A peace treaty is not necessary to accomplish these desired ends. Having exacted retribution, hung the guilty, freed the innocent, and jailed the remaining war criminals, we have settled most of our old scores. Japan has been chastised as few nations in history, her war plants have been dismantled, and her soldiers disarmed. But she still remains a potential force in the Far East and from the standpoint of our own national self-interest it is better that this force be with us than against us.

We should turn back to the Japanese the running of their own economy and their own affairs. But we should leave behind a small supervisory commission to make sure that the results of the occupation are not prejudiced and that the Japanese are not producing for war. To those who say that this would leave Japan open to a Soviet invasion, the answer is that our present number of troops could not possibly, in the opinion of American generals now in Tokyo, prevent mass landings on Japanese soil—and we have a potential Bataan complicated by the presence of over twenty thousand American women and children.

The greatest threat to peace today is unquestionably the military and political offensives, throughout the globe, of Soviet imperialism. In the Far East, at least, we can hold and defeat the forces of Communism, and save ourselves hundreds of millions of tax dollars in the process, by introducing in our policies toward the nations of China and Japan an element of realism that is long overdue.

And this we owe to ourselves.

Doing things by halves is worthless: it may be the other half that counts. —*Swanson Newsletter*

Mr. Bigg liked to know all about the employes who toiled in his vast business. One day he came upon a new young man, who was dexterously counting out a large wad of the firm's hard-won cash.

"Where did you get your financial training, young man?" he asked.

"Yale," the young man replied.

Mr. Bigg was a staunch advocate of higher learning. "Good," he said, "and what's your name?"

"Yackson." —*Phoenix Flame*

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Holiday of Light

He came out in a holiday
All colored fires every way,
A mountain by him was an entire
Cool and most incredible fire.

The maples turned to seraphim
Wore tongues of flame on every limb,
A million flames burned without sound,
And this was holy, holy ground.

A golden forest stood and shed
Light beside a wood that bled
Blood so bright no agony
In such a handsome death could be.

This was the dying of the year,
And it was a holiday of clear
Hills and valleys made of light
Too deep and splendid for the sight.

He could only hold his breath
And go between these walls of death
With eyes gone mercifully blind
With too much beauty for his mind.

ROBERT P. TRISTRAM COFFIN

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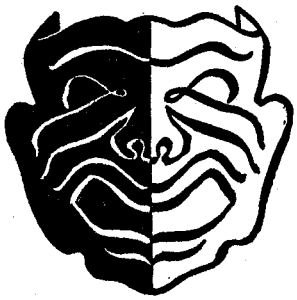
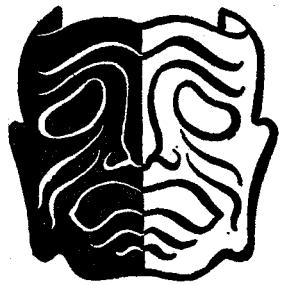


The THEATRE ARTS



by John Gassner

One way of assaying the theatre is to glance at what appears on its periphery, whether this be stage productions that do not adhere to play structure, as in the case of musical revues, or the products of sister arts like films, radio, or television. Thus considered, it remains certain that the dramatic medium is still the most powerful form of expression since the decline of the folk epic. No matter how vulnerable the drama may be to political circumstances and economic pressures, its survival is assured on at least two levels. The level of the non-commercial theatre can always survive in universities, schools, and community enterprises, even when disaster strikes the Broadways of the world. Then there is the level of mass-communication media under which we may list motion pictures, radio, television, and all those spectacles for the propagation of mass hysteria that tyrannies encourage. Still, it is equally certain that all these sister arts represent a defamation of the noble spirit of drama in proportion to their goal of popularity and qualifications for it.

Nor is the drama to be lightly discounted as against other forms of stage entertainment in spite of the great strides that have been made in the fields of musical comedy and musical revues. Opera, like ballet, cannot of course be eliminated as a medium where aspiration and accomplishment can be as high as its creators' capacity. But the diminished role of verbal expression in opera is a substantial limitation in modern times, in which the psychological and social concerns cannot be expressed by purely suggestive and indeterminate musical means. It is not surprising that the great age of opera is a thing of the past.

Although we often clamor for more suggestiveness and imagination in the theatre, we know only too well that its strength lies in the spoken word that sums up character response and social reality. No matter how far the theatre may veer from prosaic discussion, and no matter how longingly it looks for assistance to music and dance, it prevails as an independent entity only when it remains true to the verbal heritage it has received from its past masters. The impatience with which students and the laity approach the great Greeks, Shakespeare, Goethe, and the other master dramatists is an impatience with the taxing nature of verbal expression. It is so much easier to gather balm in the Gilead of the pictorial medium of films and in the earthly paradise of harmonious sound.

Of all the arts, exclusive of architecture and sculpture, the drama remains the most classical in spirit; it strives for the greatest degree of definiteness and confines itself most often to a small area well plowed. It might be argued, of course, that radio plays give the verbal element an even greater degree of emphasis, but in so far as they are intended for mass consumption, the scope for verbal expression rarely graduates from the primer class. It must be remembered that the stage uses the word solely in relation to seen action and observed characterization, so that the verbal element is part of an orchestral composition instead of a thin squeak of piccolo sounds. Nevertheless, far from ignoring the other media, we must actually cultivate them in the democratic world and strive to improve them. Criticism can provide a useful astringent. Their practitioners will heed criticism;

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at least they will not ignore it entirely because they constantly aspire to the ego-gratification of approval from literary and theatrical sources.

The case of such a peripheral art as the musical revue need not detain us particularly. Although it can include little dramas in the form of so-called "sketches," it is unlike the drama in that it makes a virtue of diversity and only thinly conceals its diffuseness, generally by merely employing a generic title like *Make Mine Manhattan* or *Inside U.S.A.* Its popular success is proportionate to the attractiveness of its component parts—its lyrics, dances, burlesques, and sketches. "Sufficient unto the night is the variety thereof," might well be the slogan of its purveyors. Still it is apparent that this thing of shreds and patches has been a second-rate enterprise at best. It may not be just to expect of it anything like the integration or unity of tone and idea to be found in the best of plays. But if it is assumed, as assumed it must be, that this is incompatible with the nature of the musical revue, then so much the worse for its nature. Since to some degree this limitation also holds for musical comedies or so-called "book shows," it is not a sign of health in the theatre when "musicals" outnumber and outrank the drama.

Can the musical revue improve its form? The question may not be worth answering to those who are sufficiently content to have it just as it is because it pleases them, as well as to those who are certain that the leopard cannot change his spots. But the question comes up whenever one sees so expert and so inordinately successful a revue as *Inside U.S.A.*, which Howard Dietz and Arthur Schwartz based on John Gunther's recent book. When the project was announced, some of us hoped that so popular a medium as the musical stage would disseminate important and enlightening matter. Such is not the case except in the brilliantly satiric dance-treatment of American murder trials, in which the dancer Valerie Bettis is superb and the choreography by Helen Tamiris is bracing, and except, to some slight degree, in the delightful song-number, *We Won't Take It Back,* in which the Indians refuse to take back a civilization-marred America.

The fact is that *Inside U.S.A.* may have any number of virtues as a show, but it belies its title by getting so rarely inside the United States. There are two U.S.A.'s—the one that Beatrice Lillie, Jack Haley, and the rest of the good company play with as if the 48 states were merely 48 Indian clubs to whirl in the air of Broadway, and the one observed by Gunther, which is something else. Attention to the latter would have given greater unity to the revue, which may be a secondary matter, and could have given genuine significance to the revue, which is not a secondary matter. That this would have to be achieved without solemnity and without constant harping on purely political issues goes without saying. There is nothing wrong with a skit like *Come O Come,* the Beatrice Lillie number in which this ineffable comedienne presents a vignette of a schoolmarm directing the "Pittsburgh Choral Society." Its humor is one wrinkle in the face of the nation and belongs to the portrait. Another wrinkle is Miss Lillie's mermaid on Plymouth Rock, in the number called *Massachusetts Mermaid.* But too many parts of *Inside U.S.A.* were fitted into the revue because it was thought they would be amusing or because they would fit some particular actor rather than because they would constitute meaningful entertainment. If the creators of *Inside U.S.A.* were inept and if they did not have Gunther's example as a mark to shoot at, criticism would be a waste of time. As the case is otherwise, it is appropriate to observe that there is a regrettable tendency in the theatre to throw integrity out of the window whenever one leaves the discipline of the drama. That this need not be the case was well proved when *Pins and Needles* was produced. But the rub is that *Pins and Needles* was created by a trade union for trade union people, even though it soon attracted a more miscellaneous following, whereas revues like *Inside U.S.A.* are tailored for Broadway and intended to make huge profits. In this the revue has succeeded, and for Broadway that is sufficient.

Another example of adjustment to a pattern is James Cagney's film, *The Time of Your Life,* based on William Saroyan's Drama Critics Circle and Pulitzer Prize play. Strange as it may seem, there is more integrity in the

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film than in the aforementioned musical revue. Mr. Cagney and his associates are indeed to be commended for a painstaking effort to hew to the lines of the stage play, to be true to its content and spirit. Since the play was off the beaten track, Mr. Cagney cannot be charged with trying to pander to the lowest common denominator of taste and intelligence, and the result is an above-average motion picture, which is suffused with compassion and democratic feeling. Yet when all this is granted, it cannot be said that the picture is of the same caliber as the play or that it quite achieves the beauty and strength promised by the material. Censorship is Hollywood's bane not only when it tries to promote political tenets but when it tries to serve the seemingly simple but actually complicated cause of beauty.

In the play we have a young man, Joe, who tries to play the Paraclete in a San Francisco honky-tonk. One of Joe's major concerns is the lot of a shiftless and untrained but altogether decent young man and of a fundamentally sweet-natured young woman "Kitty Duval" who has been driven into prostitution and salves her ego with illusions of having once been a burlesque queen. Observing that the two young people are drawn to each other, Joe facilitates their romance and encourages the young man to get a job and marry Kitty. The crisis in the play comes when a neurotic and sadistic Vice Squad official starts to persecute Kitty and is likely to block her escape from a tawdry life. The play is resolved when Kit Carson, an elderly liar who fancies himself to have been a hero of the frontier in his youth, kills the sadist for affronting a lady. Joe hands Kit Carson his own pistol with the implication that a pistol is sometimes useful when the little men of the world must be protected from those who persecute them. This point was particularly meaningful in 1940 when international gangsterism was in its heyday.

Joe is expiating some strong sense of guilt derived from his realization that he made his money in the unholy war of competitive society and this sense of guilt, as well as an unhappy love affair, has led him to withdraw from the race of making money. It has made him passive with respect to his personal fate and active with respect to others, saving those whom he can and trying to understand and sympathize with those whom he cannot assist. Joe was an odd but significant and touching character, and a largely convincing one. At the end of the play, moreover, Joe left the saloon to which he had retired; and his leaving after the Vice Squad episode intimated that he was once more going out into the world, where men of his persuasion must actively oppose the evil of which the detective's behavior is only a small example.

It is well known, however, that any criticism of the profit-motive is not a favorite Hollywood topic. Joe's motivation was therefore amputated in the film; his behavior was attributed solely to having lost his girl to someone else. Since the industry's code taboos prostitution, the film could never make it clear why the villain Blick (Saroyan's Vice Squad official) is a serious threat to Kitty Duval. Nor was Joe's magnificent kindness and tolerance genuinely realized, since there seemed to be no reason why Kitty should need saving; his furthering her romance lost much of its force in consequence. And all the dramatic values were lessened by another concession to censorship, which frowns upon ever showing the police in an unfavorable light and which definitely forbids the killing of a policeman without fit punishment. Blick, who was the head of the San Francisco Vice Squad in Saroyan's play, was therefore presented as a mere "stoolpigeon," whose behavior has no legal sanction or force. When he persecutes Kitty, he does so in an unofficial capacity, which greatly reduces the force of Saroyan's point concerning him. If he were killed by Kit Carson, it would not be evil authority but a verminous species of neurotic who would be destroyed. In the film, he is not killed at all; he is merely thrown out of the saloon, which is a rather tame conclusion after all the fuss made over him. These are some of the ways in which a deeply moving stage drama becomes a somewhat scrambled motion picture. It is another example of how the mass communication arts must stop at the foothills of Parnassus.

Whether this is an inevitable consequence of trying to reach the masses is a question of great moment, since it is popular art that disseminates the values by which a people must

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live. It would take more than a short essay to solve that problem. It is certain, however, that the evil does not lie in trying to reach the mass of the people, but in the forces that shackle, blind, and pervert the mass media. Much of the most vital art of the world was directed at the common man; the plays of Aeschylus, Sophocles, Euripides, Aristophanes, Marlowe, Shakespeare, and Lope de Vega were aimed at him, as were the Homeric epics and the medieval miracle plays and ballads. Therefore an answer to our question need not invalidate art for the masses but the basis upon which it rests in our time. Moreover, there are instances when even so popular a medium as the film industry has operated without corruption of spiritual values and loss of intellectual integrity. Films like *Grapes of Wrath* and *The Informer* are part of the evidence, and even in these days of retrogression in Hollywood, recent motion pictures like *State of the Union* and *All My Sons* add to the evidence. *All My Sons* treats the theme of social responsibility and war-time profiteering as relentlessly as did Arthur Miller's play of the same title, and the political matter of Frank Capra's film *State of the Union,* is not less forthrightly presented than in the Howard Lindsay and Russell Crouse play on which it is based. Where, as in *All My Sons* the ethical theme is couched in generally acceptable terms, where—as in *State of the Union*—the political viewpoint concerns surface manifestations—Hollywood can function smoothly enough, as no doubt can radio drama too.

This is reassuring—as far as it goes. The trouble is that the tether of censorial demands and moral queasiness proves very short and irksome when the mass medium brings Pegasus into its stable. Tame nags and mildly spirited ones are given comparatively free passage, and all seems well until Hollywood tries to cope with bold creative efforts that can call no man their master.

A Brooklyn mother was pleading with the judge, asking leniency for her gangster son. On behalf of the oft-sprung she cried: "Judge, he was always a good boy. Everything he stole, he gave me half!"

—Quote

Speaking on the dangers of modern food, the speaker pointed a finger at a harassed looking individual and demanded, "What is it that we all eat, at some time or another, that is the worst thing imaginable for us? Do you know, sir?"

Softly came the answer from the little man, "Wedding cake."

—L. and N. Magazine

The young clergyman, during a parochial call, noticed that the young daughter of the hostess was busy with her slate while eyeing him closely from time to time. "And what are you doing, Clare?" he asked.

"I'm drawing a picture of you."

The Clergyman sat very still to facilitate the work of the artist, but presently Clare shook her head in discouragement.

"I still don't like it much," she confessed. "I guess I'll put a tail on it and call it a dog."

—New Orleans Times-Picayune

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JASPER R. LEWIS

Books in brief

Between 1840 and 1940, the population of the world more than doubled—from 1,000,000,000 to 2,200,000,000. At the present time, the world population shows a net increase of 50,000 *each day*. Yet there is little more than one acre of agricultural land per person as a world average! As populations increase and the fertility of the land decreases, available food supplies dwindle.

Taking a long look at these discouraging facts, William Vogt shows us a rather straight and narrow *Road to Survival* (William Sloan, $4.00). "Man is the only organism known that lives by destroying the environment indispensable to his survival," writes ecologist Vogt. Populations are increasing. Modern medicine is unthinkingly prolonging human life and destroying natural selective methods of limiting population expansion. Human beings are willfully destroying the natural land richness on which they themselves depend for survival. The picture is, of course, grimmer than grim.

In this atomic age, we are inclined to think that man has at last outwitted nature and that we are no longer dependent on the good earth for survival. This is a dangerously false impression. "Man's bodily energy can reach him only through the slender channels of millions of green plants," writes Mr. Vogt, and "plants, except marine forms economically inaccessible to man, cannot exist without soil and water." Yet through the ages, in almost every civilization, man has systematically lessened the fertility of the soil. Our culture differs only in that technological improvements have made it possible to destroy the top soil of the world more efficiently. As Vogt points out, increased production-per-farmer because of modern machinery is a meaningless concept when divorced from production-per-acre. Look at these figures. "Virgin soil in Ohio, with unimproved seeds and no insect control, yielded a hundred bushels of corn per acre, and sixty bushels of wheat. Crops now average forty-two bushels of corn and twenty of wheat. And even this yield per acre in one of the most advanced agricultural states in the Union, where there is greatly increased knowledge of disease and pest control, fertilizers, and plant breeding, is being maintained with difficulty and at great expense." Every year, the "carrying capacity" of America's land is being lowered; every year, we are drawing on our real capital wealth to maintain a standard of living we cannot afford. Even more significant, we are destroying our land to provide living standards in the rest of the world that are also impossible to maintain!

Mr. Vogt's analysis is penetrating and his wit is keen. He attacks the morals and good sense of the medical profession. "The modern medical profession," he declares, "still framing its ethics on the dubious statements of an ignorant man who lived more than two thousand years ago,—ignorant, that is, in terms of the modern world—continues to believe it has a duty to keep alive as many people as possible. . . . Through medical care and improved sanitation they [the doctors] are responsible for more millions living more years in increasing misery."

"One of the greatest national assets of Chile, perhaps the greatest asset, is its high death rate. Statements like these will shock, and are calculated to shock, most of us. But author Vogt is a prophet of doom, a man with a cause, and although his writing will offend and shame us, it is time we took the medicine. His basic tenet is summed up neatly in one paragraph of his book:

> Every grain of wheat and rye, every sugar beet, every egg and piece of veal, every spoonful of olive oil and glass of wine depends on an irreducible minimum of earth to produce it. The earth is not made

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> of rubber; it cannot be stretched; the human race, every nation, is limited in the number of acres it possesses. And as the number of human beings *increases*, the relative amount of productive earth *decreases* by that amount.

The problem is the same in the United States, still relatively among the richest portions of the globe, in South America, in Europe, in the Orient. At Asiatic standards, North America could probably support a population of 577 million; at our own high standards, we are already over the optimum 100 million. Mechanized farming today does not replace topsoil, it merely accelerates the rate of erosion. Dangerous as this is in the United States, it is far more harmful in our southern neighbors, where the land is so poor that few countries are not already overpopulated. From an ecological viewpoint, it is extreme cruelty to promise the South Americans "freedom from want," when their lands are so obviously incapable of producing adequate food supplies. To a greater or a less extent, the same situation prevails over the whole civilized world. Mr. Vogt takes up the problem in detail everywhere: the United States, South America, Europe, the Orient. His statistics pack a wallop that drives the lesson home.

Free enterprise, pressure groups, and all the interests robbing future generations by destroying the soil feel the weight of Vogt's disproval; but the left-wing idealists find themselves no better off. To the author, the British Labor Party's promises to bring an American standard of living to England are as meaningless as our promise of "freedom from want," our naïve belief that we can restore Greek economy or our misguided attempt to feed the Chinese. Agricultural methods the world over must be overhauled so that the good earth is protected and not destroyed. The people of the world must begin to realize that restriction of population is essential to their survival. As Bernard Baruch points out in the introduction to this work:

"The productivity of much of the earth, through man's mistreatment of it, has fallen to such an extent that what one man-hour of labor could formerly produce, now requires ten, fifty or even a hundred man-hours." The situation today is critical; tomorrow it may be crucial.

A recognized authority on conservation, Mr. Vogt is well qualified to write on this subject. Chief of the Conservation Section of the Pan-American Union, he is personally familiar with much of the terrain he describes so gloomily. Americans of every political complexion would do well to read this book. If Vogt is right, and offhand rebuttal seems difficult, then Malthus was right and the American Dream needs careful editing.

BRIEFER COMMENT

FICTION

Betty Smith, who wrote the best seller, *A Tree Grows in Brooklyn,* now presents *Tomorrow Will Be Better* (Harper's, $3.00). It is of the poor people and hard life variety; the girl who hoped for better things and the surroundings that made them all but impossible. It is ordinary enough to do well on the subway circuit.

The Color of Blood, by E. Ralph Rundell (Crowell, $3.00), is an excellent and exciting novel about life in Argentina in the 1820's, when despot followed despot, and life was worth only what the day brought. There is love interest and the building of character, but the stream of swift action and the picture of a country in turmoil, striving to find itself, is constant. The title doesn't do justice to the story, and some of the descriptions such as that of the Indian girl's revenge on Gonzaldos, are unassuming but graphic bits of work.

Henry James suggested that the nineteenth century American read Turgenev to learn of the Russian people. Today we have many other sources for information on the Russian people but the twentieth century American may still read Turgenev to find that present-day rarity—fine short novels. *First Love* (Lear Publishers, $3.50), provides a collection of three—the title novel, *Diary of a Superfluous Man,* and *Acia*—with appreciative essays by Henry James, Joseph Conrad, and Prosper Mérimée. The translation is ably done by Constance Garnet.

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Woman with a Sword, by Hollister Noble (Doubleday Doran, $3.00), is the story of Ann Ella Carroll, an invaluable aid to Lincoln and his cabinet in the crucial days of the Civil War. Before the publication of Mr. Noble's biographical novel, few Americans had ever heard of the woman who brought Maryland into the Union Camp, provided Lincoln's legal counsel, and later evolved the Tennessee Plan of military strategy.

Woman with a Sword is fiction but unlike most historical novels, it is soundly based on factual research. The author makes a brave and on the whole successful attempt to bring the central characters to life, though the writing is sometimes forced.

A significant first novel is Ralph Freedman's *Divided* (Dutton, $3.50), winner of the 1947 Lewis and Clark Northwest Award. The story of the denazification of a small Austrian town, *Divided* is a study of the American versus the European mentality and viewpoint. The novel has adventure, love, and excitement but is serious, rather than entertaining. It is well-written, and good reading.

TRAVEL

A strange and ancient country is Liberia, where a college education doesn't help in cooking rice and where native boys rule the household. In *New Song in a Strange Land* (Warner, $3.50), Esther Warner, sculptress, tells of her adventures with her botanist husband on a rubber plantation in Liberia. The author went to search for native handicraft and came away with material for a highly readable story. Prints by Jo Dendel plus the simple style of the tale make *New Song* a delight to the casual reader. A great deal of information about the west coast of Africa is sandwiched in.

An intimate glimpse of people and the land of a new nation is given in *Palestine: Land of Israel* (Ziff Davis, $5.00). Herbert Sonnenfield's photos are designed to show the determined pioneering spirit of the Jewish settlers as well as the cities and farms they built. An introduction by Pierre Van Paassen gives a brief history of Zionism and blasts the British by whose policy the survivors of Belsen "were turned away from their Palestinian homeland and were left to drown in the sea."

MISCELLANEOUS

Last year Ellis Arnall made a 75,000-mile speaking tour of 47 states and used this as background for a book titled *What the People Want* (Lippincott, $3.50). The reader may feel that Mr. Arnall need not have traveled so far to discover that Americans share a desire for "a decent home, a life of reasonable comfort, in a peaceful world." And the reader may suspect that the tour had little influence on the author's conviction that the solution of our problems lies in stimulating free enterprise, competition, and states' rights. In any case, these are his conclusions and they are presented along with many somewhat more original observations of the nation in a simple, readable style.

The Negro in America (Harper, $3.75), by Arnold Rose, is a 325-page condensation of Myrdal's *An American Dilemma,* published in 1944. The condensation should appeal to the general reader who wants information and is not particularly interested in the extensive account of method of study and source of fact given in the original. The book may be relied upon for an accurate portrayal of the Negro's position in the United States as determined by a dispassionate and exhaustive investigation.

In *Witnesses for Freedom* (Harper's, $3.50), Rebecca Chalmers Barton analyzes 23 autobiographies of Negroes to find out the minority group's own conception of how to deal with its problems. She finds that the attitude displayed varies widely from accommodation to vigorous protest—evidence which denies the existence of a narrow minority mentality. Unfortunately, the book cannot be recommended as an important source of information or as literary criticism. It is a bit of both and not enough of either.

The general reader cannot provide the lifetime of devotion to his works that James Joyce demanded. Luckily, the efforts of many critics have made this unnecessary. The essays included in *james joyce: two decades of criticism* (Vanguard, $5.00), give insight into many aspects of his works and invite the reader to probe into them himself. Critics represented include Edmund Wilson, T. S. Eliot, Eugene Jolas, and James Farrell.

In his introduction to *A Treasury of Jewish*

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Folklore (Crown, $4.00), Nathan Ausubel states his praiseworthy purpose of revealing "the little known cultural treasures" of the Jewish people. While several chapters, drawn largely from the *Midrash,* have the dignity and sincerity consistent with this object, the larger part, consisting of anecdotes culled by Mr. Ausubel from unrecorded sources, falls almost to the level of a joke book.

A careful selection of American documents is valuable in any man's library. Stuart Gerry Brown's second edition of *We Hold These Truths* (Harper's, $2.75), contains several war documents omitted from the 1941 edition, including the Atlantic Charter, the "Lilienthal Report", and the Truman Doctrine. More than fifty vital documents, starting with the Mayflower Compact, are reprinted in this handy little reference book.

"Is Christianity a passing phenomenon?" Professor Kenneth Scott Latourette answers this question with an earnest negative in his latest book, *The Christian Outlook* (Harper's, $2.50). Professor Latourette outlines the history of Christianity in most parts of the world, declaring that "by this history Christianity has shown as has no other religion the ability to survive the deaths of cultures and eras with which it had been closely associated. As the author sees it, Christianity will play an increasingly vital part in world history; it is the right and duty of every Christian to work toward that end. A well-meaning and well-written "book with a purpose."

Another able discussion of the role of Christianity is found in *America's Spiritual Culture,* by Bernard E. Meland (Harper, $2.50). Basic to Professor Meland's discussion is his thesis that the American church must participate in the "living culture" of American life, in contradiction to the withdrawal from everyday living of the European Church. "Christianity," writes Dr. Meland, "is in danger of developing into an insulated tradition to the extent of becoming an alien within modern culture." And again, "Christianity must achieve a constructive function in society as well as a prophetic voice."

Dr. Meland is Professor of Constructive Philosophy at the Divinity School of the University of Chicago. His book covers many facets of American culture and stimulates both brain and conscience.

A luring guide to the North, *Cape Breton,* Isle of Romance, by Arthur Walworth (Longmans, Green, $3.50), tells the history of that part of the Province of Nova Scotia. With text and photo, Walworth covers his journey to the island and his sojourn there in an effort to reveal the attractiveness of the spot for visitor or traveler. Included are tips on hunting and fishing and some information on accommodations for travel.

Presidential Sweepstakes, by Henry L. Stoddard (Putnam, $3.00), is a study of political conventions and battles for the presidency, particularly in the past eighty years. The late editor and publisher covered national politics from the days of Grant. The earlier period of our history is related briefly, but in the years in which he was himself a star reporter and editor, there is a wealth of personal incident and understanding.

A timely book for this election year is *Seven by Chance,* The Accidental Presidents, by Peter R. Levin (Farrar, Straus, $4.00). Here is a picture of the seven periods in which the vice-president became chief executive of the country, from John Tyler to Coolidge and Truman. Levin gives the political background of each, the general situation of the country, and what the result of the change in the presidency meant. The portion devoted to the F.D.R.-Truman era is fairly detailed, with an estimate of the changing factor of popularity of Truman to date.

Having seen Russia's slave labor camps as a tourist before the war, Jerzy Gliksman had the doubtful pleasure of a second tour, as a political prisoner after the invasion of Poland. *Tell the West* (Gresham, $3.75), is the story of the horrors he saw perpetrated at the hands of the gentle Russian guards. It is a tale of human misery and brutality; the author's bluntness of style seeming to certify to the horror of it.

Dollars will not save the world, but the world cannot be saved without dollars.
—George C. Marshall, Secretary of State

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YES!

By PETER GRUNDY

THE executive Power shall be vested in a President of the United States of America. He shall hold his Office during the Term of four Years, and, together with the Vice President, chosen for the same Term, be elected as follows:

Each State shall appoint, in such Manner as the Legislature thereof may direct, a Number of Electors, equal to the whole number of Senators and Representatives to which the State may be entitled in the Congress, but no Senator or Representative, or Person holding an Office of Trust or Profit under the United States, shall be appointed an Elector.

The Electors shall meet in their respective States, and vote by Ballot for two Persons, of whom one at least shall not be an Inhabitant of the same State with themselves. And they shall make a List of the Persons voted for, and of the number of Votes for each, which List they shall sign and certify, and transmit sealed to the Seat of the Government of the United States, directed to the President of the Senate. The President of the Senate shall, in the Presence of the Senate and House of Representatives, open all the Certificates, and the Votes shall then be counted. The Person having the greatest Number of Votes shall be the President if such Number be a Majority of the whole Number of Electors appointed; and if there be more than one who have such Majority, and have an equal number of Votes, then the House of Representatives shall immediately choose by Ballot one of them for President. . . . But in choosing the President, the Votes shall be taken by States, the Representation from each State having One Vote. . . . .

Thus read the original Article II of the Constitution of the United States. The method of choosing the President and Vice President was subsequently altered by the twelfth amendment to the Constitution, which provides for the separate election of the President and the Vice President. But in substance the method of election determined by the framers of the Constitution remains the same today.

FORUM: Is

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Even a casual glance at the Constitution reveals the undemocratic nature of the presidential election it outlines. The common people, the "masses," were to be as far removed as possible from the electoral process. A small group of electors were to choose the chief magistrate in what Beard describes as "a quiet, dignified procedure about as decorous as the selection of a college rector by a board of clerical trustees." The people were not even to choose the electors—the state legislatures immediately arrogated that function to themselves. The selection of an American president was to be a quietly aristocratic procedure, unmarred by haranguing or campaigning.

A far cry, this, from the Republican and Democratic nominating conventions of 1948! The conventions that met in Philadelphia this past summer had no quiet, no dignity, and no decorum. As observers have remarked since the beginning of the campaign system, the American nominating system is a veritable circus. Yet like the electoral system it contravenes, the convention system is undemocratic. It is noisily dictatorial, rather than quietly aristocratic, but there is little vestige of democracy about it.

Americans must admit, however, that the method of choosing the United States President has never been democratic. Immediately after the Revolution the popularity and prestige of George Washington made him the unanimous choice of the electors for President in what was perhaps one of our most democratic elections. "Factions," or political parties, had not yet crystallized and in the elections of 1789 and 1792 there were no nominations for the presidency. By 1796 two rival parties had been formed, the Federalists and the Anti-Federalists (Republicans) and their leaders were the natural nominees. Federalist John

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AN American presidential convention is like nothing else in the civilized world; and the critics of the system—which, in its modern form, is just a hundred years old—have exhausted the language of vituperation in attack upon its character. The power of money; the persuasive power of hidden and corrupt influence; the undue authority of the doubtful State; the overt and hidden prejudices against particular types of candidates, as, for instance, members of the Roman Catholic Church; the 'deals' which accompany the capture of a delegation for one candidate as against another; the mythology of the 'favorite son'; the casual influence notable in the case of Lincoln's selection, the choice of a convention city; the undue impact, as in the Democratic Convention of 1896, of a single speech by a potential nominee; the operation of the technic of the 'dark horse' candidate; the exploitation of the 'stalking horse' behind whom some well-organized group has its carefully prepared selection whose name is put forward at the right moment; and, finally, the raucous, complex, and hectic atmosphere of the convention itself; its well-improvised enthusiasms; its fantastic horseplay; its immunity to thought; its wild rumors; its incredible conspiracies—all these characteristics, none of which can ever suffer exaggeration, seem to the outsider, and especially to the European outsider, about the worst possible way in which to choose a man to occupy the highest executive post in a democratic commonwealth.

In this fashion Professor Harold Laski described the American presidential nominating system in an essay written in 1940. Since the founding of the Republic, the nominations of candidates for the presidency of the United States have been haphazard and informal, and nominating methods have been under constant attack. It has long been the habit of critics of the American government to fasten their attention on our political nominating system and to describe it deprecatingly as a "four-ring circus" or worse. Before we accept the traditional evaluation, let us consider some of the criticisms levelled against the convention system.

NO!

By CAROL L. THOMPSON

My opponent has made much of the fact that the convention is ruled by a small group of men operating behind the scenes; that this procedure is "undemocratic"; that "deals" and compromises are the order of the day; that outstanding men are passed over while mediocrity is rewarded with public office. A cursory glance at the charges he levels serves to prove that the political nominating system is *not* undemocratic, that on the contrary the "deals" and compromises, the men behind the scenes, yes, and even the "mediocrity" is the essence of democracy itself. And lest this seem too cynical a view, I hasten to add that the convention system on the whole has served America well and that "mediocrity" is by no means the gravest criticism that can be levelled at an American President.

Every four years the voters of America are privileged to go to the polls and indicate their choice between two (or three) presidential candidates. "The chief task of the national party is to induce the heterogeneous mass of the American people to act as two units once every four years for the object of electing a President," as Professor Brogan so admirably puts it. Obviously, in order to unify such composite groups compromise is essential. Consider the magnitude of the task! No other comparable region on earth is knit together in a *democratic* union; no area of comparable size has been able to federate peacefully. Within two great national parties, various sections of the country deal with one another; various special interest groups find a common goal. The farmers of the middle West, the industrialists of the Eastern seaboard, the cotton interests of the deep South, the city machines of every locality—all these and many others

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Adams won the presidency and Anti-Federalist Thomas Jefferson became Vice President.

The election of 1800 saw the beginning of the secret Congressional caucus as a method of determining the presidential candidate. The Anti-Federalist candidates, Jefferson and Aaron Burr, won over the Federalists but were themselves tied. Obviously, the Anti-Federalists, now known as Republicans, intended Jefferson to be President and Burr Vice President, but the tie gave the Federalists the chance to swing the election to Burr out of spite. Hamilton swung the election to Jefferson after both parties had met in secret caucus. From 1800 on, it was the custom of the national party leaders in Congress to meet and choose their candidates, in an effort to clarify issues for the electors.

As democratic notions became more popular in the United States, as the frontier began to move westward, and the new pioneers demanded a larger share in affairs of government, the secret congressional caucus was widely criticized. By 1824, only 66 Democratic members of Congress answered the party call to a "nominating caucus," the rest protesting by absence against the "undemocratic nature" of this procedure. This method of nominating was abandoned after the nominee of the caucus came in third in the 1824 election. State legislatures then began to put forward candidates, and by degrees delegates from various state political groups met to nominate party candidates. Since 1840, all major parties have held political conventions to pick their candidates, with the primary system developing gradually to make the convention method more democratic.

Despite the primary system, most delegates to the national conventions have no mandate from the people they represent, and this fact alone destroys the democratic nature of the nominating system. In only 16 states and the District of Columbia, some sort of election primary is held. But even in these states, the results of the primary are often vague; the delegates are not even bound to follow the choice indicated by the primary. In some states the voter votes for a delegate instead of a candidate, and often the presidential choice of the delegate is not known. In other states, the members of either political party can vote in both primaries thus permitting the opposition to contribute to the nomination of a weak candidate.

The distribution of delegates at the convention itself places a premium not on ability but on geographic origin of potential delegates. Nominees from the larger states have a terrific advantage over nominees from the smaller states, because they control large blocs of convention votes. It is no accident that in every election since 1920 one of the Presidential candidates has been a New Yorker! Not since 1852 has a citizen of a small state been elected to the Presidency.

SOUTHERN INFLUENCE

Because theoretically the conventions are *national* in scope, the delegates are usually not representative of their respective parties. The Republican convention, for example, draws delegates from all the Southern states, although the Solid Democratic South almost never returns a Republican elector. The influence of the so-called "black South" has been decreased since the heyday of reconstruction, but it is still obvious that the votes of Southern Republican delegates have little to do with party policy. Actually, the Southern Republican vote has long been considered "for sale," and the enterprising Northern politician uses it to strengthen his own candidate.

Republican states like Iowa and Vermont also exercise considerable influence on the Democratic candidate, and thus this criticism is equally applicable to either party.

The Republican convention in Philadelphia in June boasted more than 2,000 delegates and alternates, and more than 10,000 spectators jammed the convention hall. No one familiar with the workings of government can doubt that the real decisions were made privately behind the scenes and not in a "democratic" circus fanfare. In every political convention, deals and compromises are the order of the day and the candidate picked represents the compromise choice of the politicians and not the choice of the nation's Republican voters.

The candidate, further, is by no means always the best possible choice for the presidency. Time after time in our political history,

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top-flight statesmen have been passed over for mediocre, "compromise" candidates. In the early days, the presidency went naturally to intellectual aristocrats—to men like Washington, Adams, Jefferson, and Madison. The election of Andrew Jackson in 1828 profoundly altered the pattern; political "availability" rather than suitability, became the criterion for the highest office in the country. Men like Daniel Webster and John C. Calhoun never had a chance at the presidency although they were obviously well-suited to the office. As Professor D. W. Brogan has pointed out, "For nearly a century past the American parties have looked for presidential candidates in the ranks of the safe, the pliable, sometimes even the obscure. The more a politician has displayed energy, leadership, and willingness to take responsibility, the more likely it is that he has made formidable enemies, alienated important sections, in brief made himself less 'available' than the sound party hack."

Thus, Stephen Douglas was passed over once for Franklin Pierce and again for James Buchanan, both mediocre Democrats. In 1860, Seward's brilliant record availed him nothing and the relatively unknown Lincoln was nominated. Examples of mediocrity or unsuitability are endless.

The nominating convention for the party in power, further, is often merely a fraud. Unless the current President has already served two terms (and perhaps even if he has), he is usually assured of the nomination before the convention opens. The party in power cannot usually afford to repudiate the President it has nominated. The strength of this tradition may be seen in the nomination of President Truman by the Democratic party, although the Southern wing opposed him violently and publicly and although many party leaders doubt that Truman can win the 1948 election. The patronage dispensed by the administration in office helps to assure the nomination of its chief.

As long ago as 1890, Lord Bryce declared that the presidential nominating system was the weakest part of the American governmental system. Time has not improved it. The American electorate must shake itself from its lethargy and demand a more efficient and democratic method of nominating presidential

Thomas in *The Detroit News*

"SLIGHTLY WACKY, ISN'T IT?"

candidates. It is possible that a direct presidential primary like our direct senatorial primary would do the trick.

The Senate was originally elected by the legislatures of the respective states. The senators were, in effect, almost diplomatic representatives of the states. As a result the Senate became a "rich man's club." Advocates of the direct primary for the selection of senators called it "the most exclusive club in the world." Fabulous sums were spent by individual rich men in attaining senatorial seats.

The direct primary has not eliminated the power of wealth in electing senators. This is particularly true in the large states where the electorate is so great that large sums are needed to reach and attempt to influence it—even by honest candidates. The number of large states is relatively few and in the smaller states the direct primary has often accomplished its purpose.

Should presidential candidates be nominated by direct primaries, the problem will be one of finding a more democratic and more efficient method of uniting the respective parties on candidates whose records are known to the voters. At present, we vote for many men whose names are even unknown to us. From

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this group come most of the presidential electors. Most of us at least know something about Truman, Dewey, Wallace, Warren, Barkley, Taft, Stassen, Douglas, and Pepper. Able or not, we can vote for them just as intelligently in a primary as in the presidential elections. One of the problems of democracy is to make participation in elections obviously of importance. This the present system does not do. Direct voting for a candidate does create more interest and responsibility. Witness the Dewey-Stassen contest in Oregon. "Bosses," "machines," and "deals" flourish on the apathy of the electorate. A more democratic system will require greater effort. The anachronistic convention system must go.

(Continued from page 161)

must find a common ground. Were the politicians of both parties unwilling or unable to compromise their differences, to make "deals," as my opponent puts it, not two or three but an infinite number of candidates would bewilder the American voter at the polls.

In truth and in fact, the conventions themselves treat us to this spectacle every four years, when favorite sons and pet candidates of every faction are put before the delegates. Fortunately for democracy in the United States, the convention system then produces the candidate most acceptable to the greatest possible number of people. The necessary compromises effected to pick the ultimate candidate ensure that voters in any particular region can vote for the party's candidate with the expectation that he will represent their needs as well as those of many other sections of the country. This greatly simplifies the task of the voter, who knows that he can vote along broad national lines in his choice of a candidate without neglecting his narrower sectional interests.

DOCTRINE OF AVAILABILITY

The necessity for compromise has resulted in the so-called doctrine of availability, summed up by Harold Laski clearly: "The party needs a candidate who, positively, will make the widest appeal and, negatively, will offend the least proportion of the electorate."

Make no mistake, however. The "available" candidate is by no means of necessity the poor or unqualified candidate. A man whose views are not acceptable to many sections of the country and to many diverse interests would not make a truly *national* president, even if such a man should win a nomination or an election. This would undoubtedly be true of Henry Wallace today, and it was perhaps fortunate for this reason that Harry Truman replaced Wallace on the Democratic ticket in 1944.

My opponent makes much of the fact that first-rate men are frequently passed over for the presidency. In most cases, however, such men are disqualified from public office because they lack sufficient popular support. Henry Clay, for instance, was probably over-eager for the presidency although his party nominated him twice anyway. John C. Calhoun was unquestionably one of the outstanding thinkers of his day, yet he was too closely bound to the South to assume such an important national position. A study of his later life and writing makes this clear. Thus in most cases careful analysis reveals reason enough why certain outstanding American statesmen missed the White House. When my opponent makes this criticism, he is in reality criticizing not the convention system but the democratic theory of government. In a governmental system where the people are ruled by an intellectual aristocracy—Plato's philosopher kings—such neglect of outstanding statesmen would constitute a serious indictment. In a democracy, however, no such criterion prevails. If the presidential candidates represent the choice of the greatest number, we may consider that the demands of democratic theory have been satisfied. That the greatest number may not choose the most brilliant available candidate is completely beside the point; it is the fact that *their* choice prevails that is important to this discussion. And the convention system, where all candidates are screened in discussions with delegates from all sections of the country, ensures that *a national* nominee will be selected. This is obviously a democratic procedure.

Nonetheless, let us consider my opponent's

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charge that American presidents are on the whole mediocre men. Careful study shows that this generalization is misleading. In the first place, some seemingly mediocre presidents have been proved first rate upon historical study. Such a man as Andrew Johnson, for instance, was harshly judged by his own generation, yet he is respectfully regarded today. Of other presidents, closer to our own time, the verdict is not yet in—Herbert Hoover, for example, is regarded in some quarters as a most capable chief executive and in others as a second-rate man. Poor presidents we have had, of course, and the Buchanans, Coolidges, and Hardings of American politics may be expected to recur. But I challenge my opponent to mention any democracy that does not choose poor leadership from time to time! Indeed, there has never been any government that can boast continuing top leadership.

What my opponent overlooks is the type of leadership the convention system has produced in time of crisis. The Civil War gave us Abraham Lincoln; the First World War, Woodrow Wilson; the great depression and the Second World War, Franklin D. Roosevelt. When, in the judgment of the majority of people, the time demands a strong man, they nominate and elect him. It is most fortunate that this is the case; most fortunate, also, that the American people do not continually favor "strong men." For in our system of government, with its divisions of power, its checks and balances, the very strong president is out of place. If the American people did not grasp this fundamental, a succession of strong presidents would wreck the American governmental system. Let those who doubt this, check back over the 16 years of Roosevelt's tenure and analyze the growing strength of the executive, the weakening of the legislature, the packing of the Supreme Court, and the development of an unexcelled patronage system. Roosevelts we must have when we need them, but the Trumans of the presidency also have their place. And it is to the everlasting credit of the convention system and our democracy that the President usually fits the situation.

There is no nominating system, furthermore, that can satisfactorily replace the convention. The presidential primary is an important method of finding out which possible candidates will be favored in various sections of the country. Primary elections give valuable clues as to the "availability" of one or another nominee. They cannot, however, replace the national convention system. In the convention, a relatively small group of "insiders" undoubtedly make or unmake the candidates and this process is a necessary part of the political system. As Walter Lippman pointed out in his work on *Public Opinion:*

> Distance alone lends enchantment to the view that masses of human beings ever cooperate in any complex affair without a central machine managed by a very few people. . . .
>
> The reason for the machine is not the perversity of human nature. It is that out of the private notions of any group no common idea emerges by itself. . . . By mass action nothing can be constructed, devised, negotiated, or administered. . . .
>
> A concrete choice [has] to be presented, the choice [has] to be connected . . . . with individual opinion. The professional politicians learned this long before the democratic philosophers. And so they organized the caucus, the nominating convention, and the steering committee, as the means of formulating a definite choice. . . . The essential fact remains that a small number of heads present a choice to a large group.

This is by no means undemocratic; it is merely the practical working out of democratic government. Every criticism levelled at the convention system, in the last analysis, is a criticism of democracy itself, and not of American methods of nominating. Given an enormous geographic area to govern, given the diverse interests of those who make up the voting public, some method had to be devised of unifying public opinion in order to hold orderly elections. Out of our long experience the democratic convention system has emerged, in all its pseudo-pomp and pageantry. A four-ring circus? Yes, indeed, but look under the trappings, and see a united America at work!

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More Than

FIFTY YEARS OF *FORUM*

Although brave attempts have been made by economists both in and out of the government to predict economic trends and control inflation, times do not seem to have changed much since 1920. Looking backward to that period of inflation, we find the same groups advocating the same "cures." Thus Mr. James S. Alexander, President of the National Bank of Commerce of New York, urges people to "work and save" to overcome inflation.

The Chamber of Commerce opposes government in business: *It is essential that our government should scrupulously refrain from entering any of the fields of transportation, communication, industry, and commerce, or any phase of business when it can be successfully undertaken and conducted by private enterprise. Any tendency of government to enter such field should be carefully weighed in light of its possible effect upon the very genius of our institutions.*

A college professor from Columbia blames a *debauch of speculation all over the country —that it was as bad in the country and in the cotton states as in the financial districts and that it produced identical results.*

Mr. A. Barton Hepburn of the Chase National Bank gloomily predicts: *All the elements of a panic are not under the surface but right on it, and all panaceas are useless.*

Samuel Gompers and James H. Maurer, President of the Pennsylvania State Federation of Labor, disagree over labor's share. Mr. Gompers believes in more production: *Only out of production can we all grow prosperous and every aid to production that does not involve human waste is a benefit to society. If the added production is gained at the cost of a human being then it does not help society, because even from a cold standpoint of economics it tends toward overproduction by destroying in the very making of the product those who would directly or indirectly buy that product. Whatever are the evils in the distribution of the products of work (and there are many of them), those evils are not going to be cured by producing less.*

That will not solve the problem of distribution. That will provide humanity with one bone instead of two to snarl about. . . .

Mr. Maurer asks: *Increase production? Produce more commodities? What for? Aren't the workers now producing billions of dollars worth more than their wages will ever buy back—more than they are permitted to consume? Is increased production the solution for the problem confronting the workers? . . . .*

The problem for the worker is not increased production but increased consumption. Not how to produce more, but how to consume more.

Mr. Homer L. Ferguson, President of the Chamber of Commerce, confidently claims that *the advanced cost of living is due largely to tomfoolery. Those largely responsible for everlasting baiting of corporations as such, and those who are making the loudest noise about the tremendous increase in living due to profiteering are the people who are to blame most for the high prices.*

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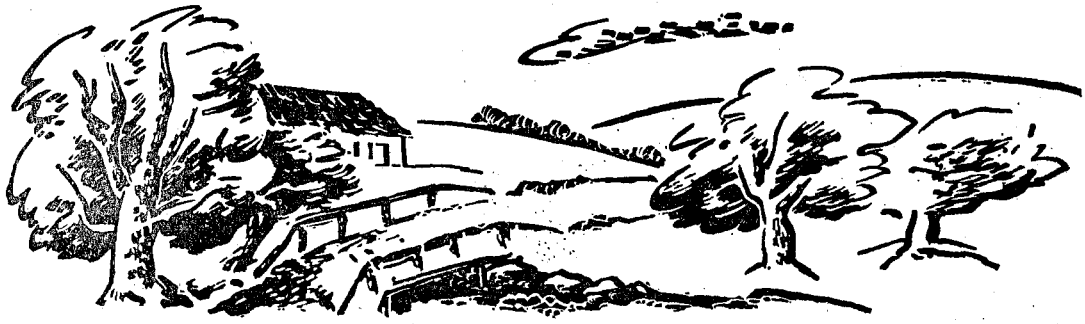

COUNTRY COMMENT

"Dr. Ripley prays for rain with great explicitness on Sunday," wrote Emerson in his journal for August 18, 1838, "and on Monday the showers fell. When I spoke of the speed with which his prayers were answered, the good man looked modest."

If you smile with Emerson at the venerable doctor, be careful not to let any trace of smugness creep into your smile. It was an age of faith that Dr. Ripley symbolized, but it was also—who will deny it?—an age of results.

Had Dr. Ripley gone aloft in an airplane and scattered dry ice pellets on the clouds, he might have produced a little rain, he might have produced a little snow, or he might very probably have produced nothing at all. At best the rain would have been light and local. So much bother, so much expense, so much uncertainty, for so little effect. Confidently Dr. Ripley went aloft in his pulpit and prayed for rain, and on Monday the showers fell.

As I write these words, my small vegetable plot is suffering from drouth. I cannot remember the last rainfall. My seedlings are making precarious growth. For two weeks I have been carrying pails of water to my tomatoes, and today I began on my soybeans.

I fall between two ages, the age of religion and the age of science, too late for the one and too early for the full flower of the other. I do not pray for rain; neither do I put my trust in dry ice, at least not for this summer. Since my garden is very small, the unavailability of both science and religion does not constitute a crisis. With a little effort I can water my garden without rain—pail by pail. But not so my farmer neighbors.

The most attractive way of inducing rain I ever heard of was exhibited several years ago by Miss Lillie Stoate who broke a prolonged Florida drought merely by sitting beside Lake Reedy a few hours until the rain came. She had providentially provided herself with an umbrella.

"Miss Stoate says she can produce rain merely by sitting near a large body of water," runs the A.P. dispatch. "Citrus growers brought her from her Oxford (Miss.) home last week after she advised she could end a damaging drouth." Fred Peebles, attorney for a Florida real estate company which sent Miss Stoate a check for $10.00, is quoted as saying, "The results are okay."

If you tell me that this is sheer magic, far more obsolete than any religion, I can only reply that I have sometimes sat by a large body of water myself, though doubtless never long enough. To sit by a lake watching the unruffled or gently-rippled surface with here a water bird and there a sail, to feel the soft air on the face and to hear the magic of reflected sounds, to dream, to ponder, to talk with a perfect companion, and at the same time to know that one is fulfilling a practical social purpose, acting as a sort of conduit between heaven and earth—what more could one desire? Who would not forsake all and become a rain-sitter, supported by small checks from farmers, fruit-growers, and real estate interests?

ROBERT FRANCIS

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TAFT ANSWERS TRUMAN

ALL that remains of our constitutional theory of "checks balances" at the moment is the "checks." The "balance" between Congress and the President has broken up in a slugging match. Since the Republicans won control of Congress, the administration has been checkmated by Capitol Hill on every major domestic policy.

Congress accuses the President of "playing politics," of trying to steal a round in the November contest, of electioneering on the taxpayers' money. Mr. Truman denounces Congress for insincerity, for "holding out" on the people's welfare. His bitter castigation of Congress reached a crisis, in this pre-election "preliminary," when he called that body the worst in history but one—the Congress that impeached Andrew Johnson.

Until Mr. Truman and Mr. Dewey square off for the presidential contest, Senator Taft, of Ohio, has become the spokesman of the Republican Party and the defender of Congress.

FORUM reprints below his answers to Mr. Truman's charges.

1. It was obvious from the time the President called a special session of Congress at 2 A.M. in the midst of the Democratic National Convention that it was called entirely for his supposed political advantage.

Senator Barkley had predicted before the convention that a session of Congress after the two conventions would be taken up "with political bickering and political legislation and political oratory." He apparently was not consulted about the session. It is impossible to study and carry through a constructive legislative program in the midst of a political campaign when all members of the House and many of the Senate are running for re-election.

Congress had given full consideration to the President's proposals at the regular session and in most cases the quarrel resulted from a fundamental difference in government philosophy between the President and Congress. The President has a New Deal program of unlimited spending, expansion of the power of Federal bureaus over states, cities, and individuals, and the regimentation of agriculture, labor, and industry. The Congress believes that problems must be solved within the principles of liberty, equality, and justice which guided this country for 150 years. The fundamental differences with the President can only be settled by a vote of the people at the November election.

2. When the President submitted a program of some 15 major proposals which would take at least six months to work out satisfactorily, the Republican leadership determined that it would give no consideration at this time to long-term programs, but would examine in detail again the President's suggestions on prices and housing, and determine whether there were any suggestions for additional Executive power which could be immediately helpful in those fields.

While we found that the President's powers were already comprehensive enough for him to deal with those problems if he really wanted to, we found various situations where Executive powers might be somewhat enlarged and our committees went to work at once to consider the President's detailed proposals. It is significant that the Presidential advisers did not agree among themselves on the causes and cure of inflation.

3. While waiting for the committees to report, we attempted to pass the bill outlawing the poll tax, which had not been taken up at the regular session. In his reckless speech at Philadelphia, the President had said:

> But the Republicans all profess to be for civil rights measures. But Congress failed to

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> act. They had enough men to do it. They could have had cloture; they didn't have to have a filibuster. They had enough people in that Congress who would vote for cloture.

The President made this statement knowing well that the present cloture rule is completely innocuous against a determined filibuster by twenty Senators. We brought up the bill. We attempted to invoke cloture. It became apparent beyond the shadow of a doubt, that there is no effective cloture rule in the Senate today and that a filibuster by twenty men on a motion to take up cannot be overcome in less than a month or six weeks.

Remember that Senator Barkley had tried three times to get a poll tax bill through a democratic Senate without success. The present situation is intolerable and may at times threaten the national security. We determined that the cloture rule must be amended to permit the closing of debate in a reasonable time and appointed a committee of the Republican conference to prepare an amendment to the rule to be brought up at the next session of Congress.

This amendment itself is subject to filibuster, and we may be forced to spend weeks at the beginning of the next session to secure the amendment. We are determined to do so.

4. In his convention speech, the President tried to blame high prices on the Republicans, but he said:

> Farm income has increased from less than $2,500,000,000 in 1932 to more than $18 billion in 1947. Never in the world were the farmers of any republic or any kingdom or any other country as prosperous as the farmers of the United States; and if they don't do their duty by the Democratic party, they are the most ungrateful people in the world. Wages and salaries in this country have increased from $29 billion in 1933 to more than $128 billion in 1947 . . . . and I say to labor what I have said to the farmers, they are the most ungrateful people in the world if they pass the Democratic party by this year.

Of course you can't have high farm prices and high wages without high consumers' prices and if the Democratic party is going to claim credit from the farmer and labor they can't avoid responsibility for the high prices which have to be paid by the consumer.

How can an administration which has been in power for 14 years escape the responsibility for high prices which are the results of its policies?

Inflation results from the tremendous deficit before and during the war, from the encouragement of exports to all parts of the world without corresponding imports, from encouraging patterns of general wage increases on the theory that they would not increase prices, from the failure to use powers to restrain bank credit, and from spending vast amounts of government money for every kind of project, competing for labor and materials with private industry.

The President's only complaint is that the Republicans will not give him power to fix wages, to fix prices, and ration commodities. This is like tying down the safety valve while you go on stoking the furnace. It would only bring an explosion in the end. The President called back Paul Porter and presented a bill rolling back prices to November, 1947, and giving him power to reinstate the O.P.A. whose 65,000 employes cost the government at least $150 million a year.

The President himself says that he will only use selective controls, but he himself abolished price controls on November 9, 1946, and gave as a reason the fact that you could not have selective controls. He said:

> The Price Administrator has advised me that, with so much of the economy freed from price controls, clinging to the rest would, in his judgment, lead to distortions in production and distribution to an extent far outweighing any benefit that could be achieved.

Certainly, you cannot fix the price of wheat and corn and other grains without fixing the price of chickens and eggs and dairy products. Our economy is so interrelated that once we start on a program of regimentation, we cannot stop short of regulating all major products and rationing many of them.

It is my view that the restoration of O.P.A. subsidies, price control, wage control, and rationing—the police state methods decried by President Truman himself—would only make the situation worse, create black markets, and check the increase in production which will reduce prices. The difficulty with

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price control is: first, that it won't work in time of peace; second, that no one knows enough about the infinitely complicated economy of this country to do the job right; and, third, that if prices were held down arbitrarily, production is discouraged and consumption increased.

We would have a bear by the tail and no way to let go or improve the situation. We remember the black markets after the war, the inability to buy the commonest articles of clothing or food, except, perhaps, in the black market. Eighty per cent of the meat was in the black market, and legitimate slaughter had so decreased that there were neither enough hides for shoes nor enough insulin for diabetics. There is hardly a country in the world using controls which is producing enough goods for its own people.

It is perfectly useless to go on with the policies which create inflation and then try to prevent their results by calling in the police. The President can check these causes by reducing the amount of government spending which in many fields is still within his control, by tightening up on housing credit for higher-cost houses and requiring strict appraisals, by limiting exports from the United States, the excess this year amounting to about $8 billion, only part of it to Europe. He can, through the Treasury and Federal Reserve Board, limit the expansion of bank credit and the creation of more currency.

He can direct the buying of goods for European relief in such a way as not to encourage increases in price. He can direct the Department of Agriculture to encourage production instead of attempting as they did in July, to reduce the number of breeding cattle by 500,000 when our meat supply is as short as it is today. The truth is that the moment any agricultural price even threatens to decrease, the government rushes to bolster it up by purchase and propaganda. They are really more concerned about deflation than about inflation.

The traditional methods of preventing inflation are within the power of the government today. The Federal Reserve Board can force an increase in the rate of short-term government bonds and can raise the rediscount rate. It has been discouraged from doing so by the attitude of the Treasury. We cannot hope to prevent inflation with an artificially low interest rate. In examining the powers of the board, we decided that they could effectively use the power to increase bank reserves above present limits and we authorized them to increase the reserves four per cent more over the present percentages, amounting to a possible increase in the reserves of about $3,500,000,000.

This power, while useless in itself while the banks can unload their "governments," can probably be used in connection with the other powers I have described. We also granted the board power to limit installment credit for consumers. This is not a large item, but did represent about $2 billion of increased credit last year. Credit control has been a traditional power of the government and it is probably the most important single power to check inflation. In fact, it must be carefully used not to go too far. I venture to predict that the board will never use all the powers the law now gives it.

The present situation, while serious for millions is not likely to produce either an extreme inflation or a depression. Wholesale prices are now higher than they were in 1920, but they are only two per cent higher than they were in January, 1948. Furthermore, the weekly earnings of factory workers in 1920 were only $26.61, and they are now $52.81 a week. There are many reasons to believe that we are reaching a stabilized price level. Wheat and corn have already dropped close to the support prices and will probably be followed gradually by many other foods. Even in the price of meat, where prices are most outrageously high, the President in his message to Congress indicated that there was no need for rationing. He said:

"On the basis of present facts, and unless further shortages occur, this authority (to ration) might not have to be used at all."

The President now has every power to prevent inflation, except price control, and if price control is ever accepted in time of peace, it will mean the end of economic freedom in the United States.

5. With regard to housing, much already has been done to solve the problem. The President's economic report submitted last

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week, says that more than a million new residential units will probably be added to the residential supply during 1948. He says:

> This volume of residential construction is already straining the capacities of the construction industry in many areas and of producers of some construction materials and is unquestionably competing with other primary national needs.

This increase is due to legislation enacted by the Republican Congress. Several years ago we granted unlimited emergency powers to the Truman Administration and hundreds of millions of dollars of subsidy funds, to remove bottlenecks and get construction started. The program was a complete failure. President Truman himself abolished the controls, dismissed Wilson Wyatt, and returned most of the subsidies to the Treasury. More than twice the number of units are being built this year as were built under Wyatt.

Housing credit is one of the elements adding to inflation. We did find, however, that too much of the government-insured construction was going into housing costing more than the average citizen could pay and that there was practically no rental housing being built under the program. We, therefore amended the law to encourage the construction of the cheapest types of housing and also to encourage the construction of more rental units. Our idea is not to increase the amount of money going into housing, but rather to direct the flow of that money into more small houses and rental housing where it is so badly needed.

The President's only complaint is that we did not include a public low-rent housing program, designed to add about 100,000 units a year, in which the rentals would be subsidized by the federal government for the lowest income groups. While I believe very strongly in this program it has been a subject of major controversy between House and Senate, and the present House of Representatives has taken the position that it is not needed at this time and would only divert materials from the private housing now being constructed.

With much regret, I agreed to postpone consideration of this question until January and to do all the other things which might be helpful in the housing situation. I shall reintroduce the public housing bill in January and press for its prompt consideration. There was, in my opinion, no possibility of passing it at this session of Congress.

6. Having passed the only measures which could possibly be regarded as emergencies after a careful study of the President's program, we adjourned. The President himself at Philadelphia, suggested 15 days as the time that we might take at this time to consider legislation.

7. The President calls attention to various matters on which the Eightieth Congress did not act. The President does not mention the hundreds of matters on which we did act. In this day and age, the federal government is involved in practically every problem that exists. The policies of hundreds of bureaus are under legislative scrutiny and are determined by legislation. Legislation should be a deliberative process, because it does establish permanent policies. Only a fraction of the entire field can be properly studied and handled in any one year. The Eightieth Congress has been largely concerned with cleaning up the war and starting the country on a peace basis.

CONSTRUCTIVE PROGRAM

A constructive program in other fields covered by the Republican platform will be undertaken with the cooperation of a Republican President. With Mr. Truman there has been a constant conflict and no cooperation whatever. The attitude of the President toward Congress is a sad contrast to the cooperation which he has received in the whole field of foreign policy. We have done our best to assist him, and sacrificed many of our own views so that it might not appear to the world that America spoke with two voices. Yet now, the President is trying to make political capital of the policy made possible by Republican and Congressional cooperation, while he vilifies the Congress.

The only reasonable way to work out a Republican program in detailed legislation is in cooperation with a Republican President.

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CONGRESS DEBATES:

Fiscal Policy

CAMPAIGN oratory aside for a brief moment, the Democratic party seems to have developed a split mind over inflation. While crying aloud for "controls," it has been understandably slow to take the drastic deflationary measure—curbing the expansion of credit. Deflation in retrospect would seem more disastrous than continued inflation. "All measures short of deflation" seems to be the Democratic slogan at the moment.

Democrats and Republicans are divided in their economic philosophies in this period of inflation as they were in the period of deflation. This basic difference is brought sharply into focus by the Senate discussion of a House amendment to S. J. Res. 157.

The Republican controlled House passed an amendment to the Federal Reserve Act that would require member banks to maintain a reserve in gold certificates of not less than 35 per cent against its deposits and a reserve in gold certificates of 40 per cent against its Federal Reserve notes in actual circulation.

The Senate Banking and Currency Committee brought in an amendment to strike this House amendment out of S. J. Res. 157. It was passed, but in the ensuing debate, Senator Taft, reversing his stand of 1945, made clear his opposition to the Senate action and to the New Deal-Eccles philosophy of government which it embodied.

Forum presents below excerpts from this fundamental discussion of our money and banking system.[1]

* * *

Mr. TAFT, Republican, Ohio. I was just coming to the question of bank reserves or, rather, the increase of bank loans. The increase of bank loans has been as follows, according to the table appearing in the President's economic report.

In December, 1945, bank loans were $26,100,000,000.

A year later, in December, 1946, they were $31,100,000,000, or an increase of $5 billion.

In December, 1947, they were $38,100,000,000, or an increase of $7 billion during that year.

At the same time there was an increase of about $1 billion in other securities, which in some ways, from an inflation standpoint, other than government bonds, may be looked upon as a further inflation of credit.

In June, 1948, bank loans had only increased to $39,700,000,000, or $1,600,000,000 in the last six months. There are signs, however, that they are increasing again. The seasonal effect was somewhat less at that time, and I think also the general payment of the government debt in such large amounts had some effect on that increase.

The proposal in the bill is to give the Federal Reserve Board power to increase reserves on member banks only. The Federal Reserve Board, I think, recommended an increase of ten points in the case of all bank reserves, of all demand deposits, which was in fact an increase of 50 per cent, and, in the ordinary city, from 20 per cent to 30 per cent. There was very wide protest from the banks. Such an increase, if applied overnight, would unquestionably require the calling of loans, and the stopping of all new loans. I think no member of the Board was willing to say how much the Board would increase reserves. The best opinion is that during the next six months they may possibly increase the reserves not more than two per cent, or two points.

Mr. PEPPER, Democrat, Florida. Mr. President, will the Senator yield?

Mr. TAFT. I would rather finish, if I may.

[1] The *Congressional Record, Senate*, Vol. 94, No. 127, pp. 10129-10132; Vol. 94, No. 128, pp. 10204-10213.

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The House fixed it at three points, which they felt would give the Federal Reserve Board power to increase the reserves as much as anybody has even suggested they should be increased, until six months from this time, when Congress will be back in session, if they want further power. The moment bank reserves are increased, under present conditions, the banks simply turn around and sell government bonds to the Federal Reserve bank and replenish their reserves. It is not a very effective weapon at best, but I think it can be used with the other powers.

The best opinion today certainly is that if the Federal Reserve Board really wants to restrain bank credit, it can raise the interest rate on short-term government bonds, and in effect let short-term government bonds go below par. It does not make much difference, of course, because they are paid within a year anyway, and we cannot go very far wrong, by increasing the interest rate on government bonds. I understand that many members of the Federal Reserve Board itself think that the rate could be increased from 1½ per cent. It has been increased from seven-eighths per cent to 1⅛, to 1½. In fact the most the Federal Reserve could do would be to help the Treasury of the United States keep the interest rate down, to avoid what is clearly an inflationary element.

I think there is some feeling about the matter. All last year there was a difference between them as to whether they really wanted to restrain the inflation in bank credit or whether they did not. They have now more or less agreed, the Treasury going along at least with this particular increase in reserves. Whether they are yet willing to permit the increase of interest on short-term governments, I do not know. If that is accompanied by an increase in the rediscount rate, it will have a substantial effect.

They say, "We also want the power to increase reserves." If they want that power also, so far as I am concerned, I am perfectly willing to give them as much as there is any possibility or likelihood of their being able to use during the next six months; and that is what this bill does.

Mr. PEPPER. Mr. President, will the Senator yield?

Mr. TAFT. I yield.

Mr. PEPPER. I recall hearing the able Senator from Ohio a few days ago making some comment about the President not having exercised, not "legal" but some sort of persuasive authority he has over the Federal Reserve Board, to cause them to take action to restrict the economy, so as to tend toward lower prices. Here, when the matter is one of giving effective and decisive power perhaps to the Federal Reserve Board, our sister party leaves out a great part of the banking structure of the country, and does not include it at all, so that the government through the Federal Reserve Board would have no power to affect them. In the second place, when they ask the ten-point authority, the Congress presumes to say, "No, you could exercise only three points, and therefore we are not going to give you authority to exercise restraint beyond three points." If Senators really want the Federal Reserve Board to restrict the economy so as to tend toward lower prices, why do they not give them power to act?

PERSUASIVE POWER

Mr. TAFT. Mr. President, I have already some days ago suggested that the President had some persuasive power with the Federal Reserve Board. I have extended that statement today to say that not only has he persuasive power, and not only has he failed to exercise it, but he has exercised his power through the Secretary of the Treasury, whom he controls, to prevent the Reserve Board from exercising the power of increasing the interest rate on short-term governments, to the point at which it will really act as a restraint on the increase of bank credit.

Mr. PEPPER. If the Senator from Ohio will yield, does he propose legislation to curb that, if it is a wrong?

Mr. TAFT. That is a matter that must be left to discretion. It is impossible for us to say, "the interest rate on short-term governments shall be 1⅛ or 1⅜ or 1½." We cannot do that here. We must entrust somebody with power to do it.

So far as the increase in reserves is concerned, I think, used in connection with other powers, it can be useful to the Federal Reserve System. It certainly shows our desire

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to indicate to the banks that we think credit should be restrained. We are granting more power in order to restrain it. . . . .

The Senator has asked why we leave out the non-member banks. Of course, in the first instance, when the Federal Reserve Board and the Treasury came in with this bill, and when the distinguished Senator from Kentucky introduced his bill, they left out the non-member banks. That was their policy. Subsequently, I understand, by a very close vote the Federal Reserve Board overturned that policy, and came down with a new recommendation that non-member banks be included. I fully agree that if we took the Federal Reserve Board's recommendation of making an increase of ten points, we could not do it without including non-member banks. The discrimination would be so great that actually many banks would be driven out of the Federal Reserve System.

One reason why I think the committee has made a mistake in increasing it five points instead of three, which was in the House bill, is that it tends to discriminate more against the member banks. If it is confined to three points, and if it is temporary, as it is, I do not think any member bank is going to leave the Federal Reserve System, simply because of the temporary enactment of a three-point increase in reserves. But even with the five, I think it is doubtful.

On the question of whether the non-member banks should be included, there is first the constitutional problem of whether that can be done. In the second place, there would be an intense feeling on the part of member banks and of many state banks that every bank in the country should not be forced into the Federal Reserve System and under federal control. There is a very strong feeling along that line. We have debated that subject in the Senate. It would produce very bitter and determined controversy if we tried to do it. It seemed to me the House was right in saying, "We will not try to do it at this time. This is only a temporary measure. We ought not to consider a substantial change in the whole banking structure of the country, in a temporary measure. If we are finally to undertake to increase reserves, then we can consider it at that time. We do not think we had better require more than three points of the member banks because we do not want to drive member banks out of the Federal Reserve System."

Mr. PEPPER. Mr. President, will the Senator yield?

Mr. TAFT. I yield to the Senator from Florida.

Mr. PEPPER. Mr. President, I do not want to be captious in this criticism, but I believe experience will prove the justification of the criticism which I am about to make of the program of the majority. All these things are in the right direction. Every one of the suggestions is a good one, but, so far as results are concerned, I predict that it will be another example of too little and too late. If we are to face this problem at all—and the Senator says we do not want to exert controls again, which I myself think we shall have to do if we are to accomplish anything effective—certainly we should let some agency, such as the Federal Reserve Board, have great power to regulate our economy in such a way that gradually prices can be forced down. When we get to that question, what do we do? We deal with half of the banks, on the ground that the others are state banks, and then when the Federal Reserve Board requests ten points authority to use to psychological advantage, we cut them to three.

Mr. TAFT. The Senator from Florida says "half the banks"—

Mr. PEPPER. Nearly half.

Mr. TAFT. However, the loans of a non-member bank are only 15 per cent of the total. Not only that, but they are scattered in places where they do not much affect the general tone, so to speak. Therefore it is not a very material factor. We can leave out that 15 per cent.

* * *

Mr. LANGER, Republican, North Dakota. I should like to have the distinguished Senator from Ohio, if he will be so kind, tell us what the distinction will be in the method of treatment of the member banks and the non-member banks.

Mr. TAFT. Under the House measure there is an increase of three points in the reserve requirement, or the power of the Federal Reserve to impose requirements on commer-

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cial banks which are member banks, and there is no power over non-member banks. Our committee increased that from three points to five points, but put in no provision about non-member banks. So that as the measure is today, it deals with member banks and not with non-member banks.

The federal government has never prescribed or claimed the power to prescribe, up to this time, at least, the reserves of non-member banks.

Mr. LANGER. How would the rediscount rates be affected?

Mr. TAFT. The rediscount rates would not be affected. They are within the discretion of the Federal Reserve Board to an unlimited degree.

Mr. SALTONSTALL. Mr. President, will the Senator from Ohio yield?

Mr. TAFT. I yield to the Senator from Massachusetts.

Mr. SALTONSTALL. I should like to ask the Senator two questions which are based on information I have received from bankers in Boston concerning the possibilities of administrative action helping to solve the problem of inflation which faces us without the enactment of legislation.

My first question is, Is not the present rediscount rate one of the lowest in the history of the Federal Reserve System, and could not that properly be raised, and thus help to take out of circulation a certain amount of currency, which is a desirable thing to do?

Mr. TAFT. I think the Senator is correct; I believe the rediscount rate is probably lower than it has ever been, and it has not been increased. If it were raised, it would have the effect of restraining the increase of banking credit.

Mr. SALTONSTALL. It is now about one-half of one per cent, is it not?

Mr. TAFT. That is what I understand.

Mr. SALTONSTALL. And that is lower than it was at any time during the war period, is it not?

Mr. TAFT. The Senator is correct. I do not know about it being lower, but it is as low.

Mr. SALTONSTALL. My other question is this: At the present time the Federal Reserve supports the government bond market. That was perfectly proper during the war period. We all agree that that is a very difficult matter to regulate, and to regulate correctly.

I understand that at the present time the Federal Reserve holds $22 billion of short-term government bonds. Would it not be helpful if the interest rate were very gradually changed in order to have a somewhat freer market in government bonds, thus helping, we may say, the insurance-policy holder, thus helping institutions and businesses to sell their bonds on the market, thus encouraging business, encouraging production, and bringing about a freer exchange of government securities between banks and the Federal Reserve System, rather than forcing them always to sell their bonds to the Federal Reserve, because there is no other market at the price?

Mr. TAFT. Broadly speaking, I should say that I agree with the Senator. The interest rate on short-term governments was seven-eighths of one per cent at the end of the war. That rate has been advanced by the Federal Reserve Board to 1⅛ per cent. It is the general opinion, I think, that it should be raised to 1½ per cent on short-term governments without affecting the 2½ per cent rate on long-term governments.

Ordinarily when the officials speak of holding government bonds at par, they mean holding the long-term 2½'s at par. That interest rate, of course, affects other interest rates. There have been times in the past when the short-term rate was higher than the long-term rate. Today I believe we could raise the short-term rate to 1½ per cent without endangering the holding of the 2½ per cent rate. That would be an important factor in restraining bank credit. That and the raising of the rediscount rate and the increase in the reserves could all be used together to do that if the government wanted to do it.

As I have pointed out, however, it is perfectly apparent that although the Federal Reserve Board wants to do something in that direction, the Secretary of the Treasury has insisted on holding down the interest rate on short-term paper.

Mr. SALTONSTALL. These are all steps, are they not, that can be taken by administrative or executive action without legislation being required?

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Mr. TAFT. The Senator is correct. The legislation is only supplemental. I think practically everything can be done without it that can be done with it. . . . .

Mr. President, in connection, therefore, with the banking reserves, and because I do not think it is wise to start to try to impose controls at the present moment on non-member banks and becoming involved in a long dispute on that subject, I think it would be better to accept the House rate rather than to increase it. I would be willing to put down a large wager that the full amount of the House rate will not be used by the Federal Reserve bank before the thirty-first of next March or the thirtieth of next June, and I think it is a mistake to give more power than is actually required.

The other amendment which the committee has presented deals with striking out the proposal to increase the reserves of Federal Reserve banks. . . . .

The rates to which we are proposing to return were in effect ever since the beginning of the Federal Reserve System up until three years ago, and we, including myself, were persuaded by Mr. Eccles that they should be reduced to 25 per cent. Mr. Eccles took the position very frankly that in his opinion we do not need any gold reserve at all. He does not believe in gold reserves. He thinks paper currency is sufficient. But he said that as a concession to prejudice he was willing to have a 25- per cent reserve. During the war a situation was brought about due to the fact that we had been losing our gold. We had lost about $2 billion. We were in the middle of the war. We were confronted with the necessity of being able to do more financing at any moment in the interest of national defense. The gold reserve had slipped away until we had come to the point where if the loss had continued at the same rate there would have been no possibility of continuing to issue government bonds to pay the war deficit. We would not have been able to do so if for 6 to 12 months more the gold had continued to slip away. So we reduced the rate. Moreover, after the end of the European war, before the Japanese war had ended, there was a general fear of a depression after the war. That was the objection by the government economists with which we were faced. That was an inflationary move. I think it is a deflationary move to take the opposite step. Many people feel that we would be better off if we returned to a gold standard, if we were to pay out gold coin on Federal Reserve notes when they are presented. I think that is a perfectly possible system to consider. I myself have never been quite willing to say I would go that far, but certainly that is something which ought to be settled.

As I see it, a larger gold reserve does not have any meaning or effect. The Federal Reserve banks today have 51 per cent in gold against their notes and Federal Reserve deposits. But it certainly sets up a red light a little closer than it is today against a further expansion of the Federal Reserve System and the issue of more and more Federal Reserve notes, which might be brought about if they had to buy very large quantities of government bonds. So we could change the system back if it appeared at any time that we ought to do so.

GOLD STANDARD

On the whole I believe it is wise to return to a gold standard. I think it would indicate our desire very clearly that we want to stand as far as we can on a gold basis, on the kind of a gold basis at least that we have today, and I should be inclined to vote for the House provision and to oppose the committee proposal. However, I think that is up to the Senate to decide. Whatever the Senate does, the effect will be more psychological than it will be actual during the next few months. Whether the action is taken or not, I believe its effect would be more psychological than otherwise. Yet inflation is usually a psychological matter. Therefore, I believe it is desirable to retain the House provision.

Mr. O'MAHONEY, Democrat, Wyoming. Mr. President, does the Senator from Ohio know that the president of the Federal Reserve Bank of New York, Mr. Sproul, testified before the committee against the 40- per cent reserve?

Mr. TAFT. Yes; and so did Mr. Eccles, and so did Mr. McCabe. The Federal Reserve banks are like everyone else; they want to restrain everyone else's power but they do not want any restraint placed upon their own powers. The only witnesses before the com-

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mittee who were against the proposal were members of the Federal Reserve Board or of the Federal Reserve System. . . . .

Mr. O'MAHONEY. Mr. President, will the Senator again yield?

Mr. Taft. I yield.

Mr. O'MAHONEY. I desire to read a bit of testimony offered by Mr. Sproul, because he quoted from the statement of the Senator from Ohio when the reserve was reduced to 25 per cent. I do this merely because I think the Senator's suggestion that the question be given consideration is a wise one.

Mr. TAFT. I may say to the Senator that I have all my remarks before me. I supported the 25-per cent reduction at the time. Under the same conditions which existed then I would support it today.

Mr. O'MAHONEY. I felt sure that would be the attitude of the Senator.

Mr. TAFT. In a deflationary situation I would probably support it again; but I believe that under the conditions today the action proposed is justified.

Mr. O'MAHONEY. Mr. President, I desire to read a portion of Mr. Sproul's testimony:

> I can do no better than to quote from a speech made by Senator TAFT at the time the present reduced requirement for Federal Reserve banks was adopted by the Congress in 1945. He said when the bill was before the Senate in April of that year:
>
> "I cannot understand why a 25 per cent gold reserve requirement is not a sufficient one for the currency of our country. I think 25 per cent as a gold reserve is adequate. I cannot conceive that gold would be demanded in anything like the amount of 25 per cent. If there were any such tremendous rush it would swamp 40 per cent just as much as it would swamp 25 per cent. I do not see the necessity for a 40 per cent reserve, but I do see great danger involved in constantly agitating as to what the reserve should be."

Then Mr. Sproul continued:

> I think that was good advice when Senator TAFT gave it, and I think it is good advice now. Our people are not afraid of the dollar. They are gravely concerned about rising prices, but they are not rushing to get out of currency and into things, as people do when there is a run-away inflation. Those who risk creating such fears about our currency, no matter how devious the approach, are performing a real disservice.

I might add that my own view about this matter is influenced largely by the effect which increasing the gold reserve would have upon the open-market operations. I feel that the Senate should not risk hampering in any way the power of the government to support government bonds. I think if we risk that power we shall be playing with fire. . . . .

Mr. TAFT. Mr. President, what I was anxious to bring home at that time and today is that the reduction in the reserve did not in any way invalidate the notes. A 25-per cent gold reserve is sufficient so far as credit to support the government notes which are outstanding is concerned. I thought the action we were taking then should not be taken as in any way indicating that the currency was weaker. I do not think it is. I do not think we are making it any stronger in this way. It is rather the effect on the Federal Reserve banks of saying to them, "There is a limit beyond which you cannot buy government bonds and monetize the debt." Today they can still buy fourteen and one-half billion more government bonds; and after they have bought about $8 billion more and are getting anywhere near that limit, we ought to re-examine the question.

So in a way we are merely setting up a red light of danger. If we get somewhere near the point where the Federal Reserve bank open-market committee is limited in its power to buy government bonds, we ought to take a look at the situation. It is a long way off. I do not know how much more they could buy under present conditions—perhaps $30 billion or so. I think it is just as well to have the red light a little closer.

Mr. O'MAHONEY. If the Senator will pardon me, I think he is not taking a look at the situation. On the contrary, he is acting without looking.

The point of the matter is that the Federal Reserve Board and the Treasury Department are now studying this very point. I agree with the Senator. I doubt very much whether there will be any demand for government bond purchases involving anything like $14 billion, but

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that is precisely the reason why I feel that we should not undertake at this moment to jump from 25 per cent to 40 per cent, because that would be doing precisely what the Senator from Ohio warned against in April, 1945. It would be tampering with the base and arousing fears that something was wrong with the currency.

* * *

Mr. CAIN, Republican, Washington. Mr. President, the second committee amendment would delete from the bill the provisions for an increase in the gold reserve requirements for Federal Reserve banks. In the opinion of the committee, such an increase would have at best only a psychological effect upon the control of inflation. As stated by the distinguished senior Senator from Ohio [Mr. TAFT] yesterday when he spoke in opposition to the committee's recommendation, the gold reserves in the aggregate presently amount to about 51 per cent of deposits in Federal Reserve banks and Federal Reserve notes. Hence, from the point of view of the committee no practical or immediate effect would be gained at present by raising from 25 per cent to 35 and 40 per cent respectively the gold reserve behind deposits in Federal Reserve bank deposits and Federal Reserve notes.

The disadvantages of the increase were so eloquently expressed by Mr. Allan Sproul, president of the Federal Reserve Bank of New York in his appearance on August 6, 1948, before the Senate Committee on Banking and Currency that I think it would be advantageous to quote briefly from Mr. Sproul's testimony appearing in volume 4 of the hearings, page 537, as follows:

> Such a proposal might, of course, have arisen out of the fundamentalist thinking of those who believe that any strengthening of the gold basis is a desirable check on inflationary developments. I am not going to enter into that area of religious belief and religious disputation. In the area of economics and public policy I can discern rather dimly three arguments which might be made for this proposal, none of which, however, has anything to do with the inflationary problem.
>
> First, there is the argument that the reserve requirements of the Federal Reserve banks were lowered during the war to meet an emergency situation and should be returned to their former level through the same process, now that the war is over.

Mr. McFARLAND, Republican, Arizona. Mr. President, will the Senator yield?

Mr. CAIN. I yield.

Mr. McFARLAND. Was evidence introduced before the committee to show what was the lowest percentage of Federal reserves at any time after the reserve requirements were reduced to 25 per cent?

Mr. CAIN. I beg the Senator's pardon. I did not catch the first part of his question.

Mr. McFARLAND. The Senator just stated that at the present time there are 51 per cent of reserves. What is the lowest reserve which has existed since the requirement was reduced from 40 per cent to 25 per cent?

Mr. CAIN. One of the reasons why the committee opposed the House proposal was that at the time of our hearing this subject was incidental to the main question of inflation and we benefited very little from testimony on the subject. I am therefore entering for the RECORD and for the information of Senators only pertinent parts of the opposition testimony as given by Mr. Sproul and several others. I therefore cannot answer accurately the Senator's question.

A member of the Committee on Banking and Currency has just laid before me what I think to be an answer to the Senator's question. The reserves fell to 47.8 in 1947.

I continue to read from Mr. Sproul:

> Second, there is the argument that should you increase the reserve requirements of the Federal Reserve banks it would sterilize the current gold inflow.
>
> Third, there is the sort of catch-all argument that an increase in the reserve requirements of the Federal Reserve banks would put desirable restraints on the central bankers, give earlier public warning of critical conditions in our banking system, and bring the whole subject before the Congress for review.
>
> On the first argument—aside from the pointing out the futility of a different reserve requirement for notes and deposits in a country with a highly developed deposit banking system, in which notes and deposits

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> are completely interchangeable—I can do no better than to quote from a speech made by Senator TAFT at the time the present reduced requirement for Federal Reserve banks was adopted by the Congress in 1945.

Yesterday I think the Senator from Wyoming [Mr. O'MAHONEY] made reference to those quotations credited to the Senator from Ohio, and the Senator from Ohio at that time gave his own answer.

At this point, Mr. Sproul set forth the argument that a 25-per cent gold reserve is adequate, that a rush to demand gold of proportions sufficient to cause reserves to fall below 40 per cent would not be likely to stop before also carrying the reserves below 25 per cent.

I shall quote further from Mr. Sproul at some length, because he happens to be the president of the Federal Reserve Bank of New York, and therefore in our opinion a very competent witness:

> I think that was good advice—

Referring to the speech of the Senator from Ohio [Mr. TAFT]—

> when Senator TAFT gave it, and I think it is good advice now. Our people are not afraid of the dollar. They are gravely concerned about rising prices, but they are not rushing to get out of currency and into things, as people do when there is a runaway inflation. Those who risk creating such fears about our currency, no matter how devious the approach, are performing a real dis-service.
>
> I might add this general argument about the more specific proposal. The reduction in reserve requirements of the Federal Reserve banks was made late in the war as a necessary adjustment to fundamental changes which had taken place and still were taking place in our banking system.

I think it is a fact that one of the reasons given for reducing those reserves was that we were likely to experience an immediate period of deflation.

> The reserve requirement was lowered in order to provide the monetary authorities with sufficient excess reserves to meet any emergency which might develop. I can see no institutional or conventional reason for restoring the reserve requirement to what it was before the war so long as we cannot happily make the same adjustment in the public debt and the assets and liabilities of our banking system.
>
> The action taken in 1946 was not solely an emergency action, but, if it had been, the emergency it was designed to meet is still with us.
>
> I think little time need be spent on the second argument that increasing the reserve requirements of the reserve banks would sterilize the current gold inflow. That is really just another way of saying that the Federal Reserve banks now have too much excess reserves, and it follows by definition that any increase in the reserve requirement would reduce the amount of those excess reserves. That is not sterilization, however, since it does nothing about member bank reserves, and it is at that level that the problem currently arises.
>
> So long as we had a substantial Treasury surplus which could be used to retire Federal Reserve-held debt, we were able to offset the effect of gold imports in considerable part. That was the way in which we were sterilizing gold imports to the extent that we did sterilize them.
>
> Finally, on this general argument about tightening up the brakes in our monetary machine, it has a reassuring sound but it may be a dangerous adjustment. Historically the chief reason for the suspension of the Bank of England Act, for instance, was the high fixed gold reserve requirement of the British currency system and in our own country we established a Federal Reserve System because we found that when we attempted to jam on tight brakes as a result of declining reserves, we usually had a money panic.
>
> Theoretically, reserve requirements of Federal Reserve banks are unnecessary, in my opinion, but I am not arguing it and will not argue that point, because I think they are required by public opinion.
>
> So granting that the Reserve banks should be subject to reserve requirements, I think they always should be permitted to have a wide margin of excess reserves. To be of real service in time of need the Reserve banks must be prepared to face the situation as they find it, to maintain broad contacts with the commercial banking system, and to extend accommodation on any sound asset.

The definition of "soundness" is thoroughly

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understood by all of us, and goes back into the management side of the Federal Reserve System. If we have sound management we must provide them with the tools to meet any emergency which may arise in our banking system.

Quoting further from Mr. Sproul:

> It is essential that the public have confidence in its ability to obtain money when needed. While the Reserve banks should be in a position to impose restrictions and restraints on monetary and credit expansion, they should not be compelled to refuse demands by an automatic and inflexible mechanical brake on their powers.

SUPPLY OF GOLD

The proposal to increase gold reserve requirements may be based on the idea that the country's supply of gold should automatically govern the supply of credit. However, the flow of gold to or from a country is not geared automatically to the internal credit needs of the country. The change suggested by the House might at some future date require the Federal Reserve banks to reduce their credit at a time when the domestic economy makes such a course undesirable. At such a time the Federal Reserve banks might well be unable to act as a market to purchase government securities, resulting in a serious decline or possibly a collapse in the prices of government securities.

When questioned about this proposal for an increase in gold reserve requirements, the Chairman of the body charged with the duty of acting as a stabilizing influence in monetary and credit matters—Mr. McCabe, of the Federal Reserve Board—who was confirmed several months ago, I believe, in his position as Chairman of the Federal Reserve Board—replied that he was not then prepared to make a recommendation on the subject, that the Federal Reserve Board is having a comprehensive study made of the proposal and that he would be very pleased to give the committee his views on the subject at some future time.

Speaking on behalf of the Banking and Currency Committee on this subject, I believe we should await the views of the Federal Reserve System on this matter before changing existing law in a manner which promises no early aid in the fight to control inflation. It would have no possible effect at this time in lowering the price structure. It obviously would have a great deal to do, for good or ill, with our over-all banking credit structure. Weighed in the scale of appreciable results the disadvantages of the House proposal outweigh its advantages. I urge adoption of the committee amendment to delete from the pending resolution any provision for an increase in gold-reserve requirements at this time. . . . .

Mr. President, the Banking and Currency Committee rests its case in support of the amendment it offers for action at this time.

Mr. SMITH, Republican, New Jersey. Mr. President, will the Senator yield?

Mr. CAIN. I yield.

Mr. SMITH. What witness did the committee hear among the bankers—and I have been in touch with a number of them—who are very much in favor of the amendment of the House? The Senator quoted Mr. Marriner Eccles and the Federal Reserve group. I realize that he is presenting the Eccles point of view on this question. There are those who do not agree with Mr. Eccles; and bankers with whom I am acquainted feel that we shall make a great mistake if we fail to impose this curb at this time as one of the steps toward controlling inflation. I am asking for information.

Mr. CAIN. The question of the Senator is quite proper, and I can give him a concrete answer. The subject of increasing the gold reserve of the Federal Reserve System was not a part of the President's recommendation when he came before the Congress several weeks ago. We therefore went into committee session to concern ourselves primarily with his recommendations. During the course of the hearings almost casual reference and inquiry was made into this subject. I was but one of several Senators who, whenever government witnesses came before us who knew anything about monetary or credit or fiscal affairs, asked them what their opinion was concerning the desirability of increasing the reserves at this time. That accounts for the fact that we heard only from government witnesses.

However, I can say that so far as I know, the Banking and Currency Committee of the Senate has received no requests from any

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private bankers to be heard on the subject. Most of us on the committee feel that the subject is exceedingly delicate and difficult, and we are prepared to stand by the recommendation of the Federal Reserve System that we consider taking no action until they have had an adequate opportunity to lay before us the results of their considered study of the problem, a study which is being undertaken at this time. But will the Senator permit me to suggest that the Senator from Vermont [Mr. FLANDERS] has a considerable interest in the problem, and I wish he would volunteer an answer to the Senator's question.

Mr. FLANDERS, Republican, Vermont. Mr. President, I may say to the Senator from New Jersey that when section 2 relative to the gold reserve of the Federal Reserve banks was first suggested, the first intimation to me came in an informal conference with the House of Representatives this week. I was surprised, and I wondered what it was all about. I could see, on quick consideration, no particular reason to be concerned about it, and I offered no objections.

The more I have thought about it, the more it seems to me that the committee's decision to delete it from this bill was wise. It came out of the blue. It is a foundling on the doorstep of the Senate, without known parentage. It is a cowbird's egg in the legislative nest. It is a matter of such importance that it is absolutely beyond reason that we should pass on it here today without adequate hearings and opinions from all groups interested in the matter. It is an imposition on the legislative processes to ask us of the committee to support anything of this sort without adequate hearings; and adequate hearings could not be held, and can be held only after a proper introduction of the subject at the next session of the Congress.

Mr. SMITH. Mr. President, if the Senator from Washington will yield on that point, I should like to ask the Senator from Vermont to settle a question that is bothering me in this connection. I understand that the House committee held hearings on this matter, and that at the hearings there were witnesses on both sides of the controversy, and those hearings are reflected in the amendment.

I also understand that a 40-per cent reserve—which would represent a breaking away from the 25-per cent reserve which is apparently the present percentage—is now recommended.

I admit there is a difference of opinion, and I agree that the matter is difficult to deal with in a brief session. However, I am more in favor of the normal 40-per cent reserve than I am of continuing the 25-per cent reserve, which we provided for under emergency or unusual conditions.

Mr. CAIN. Is the Senator aware that we have more than a 40-per cent reserve now?

We are very serious in our answers, because of the seriousness of the task of dealing with our monetary and credit and fiscal system. We approach it with great wariness, because those who have dealt with it in a hurry in the past, often have done great harm to the country.

Mr. FLANDERS. I am aware of that.

Mr. CAIN. Let me ask the Senator from Vermont a question. As one who has had great experience with the Federal Reserve and with banking operations, does the Senator from Vermont see any possible likelihood that any demands for additional credit will be made by the national banking system on the Federal Reserve System between now and the middle of next year, for example, in any sum approximating the billion dollars involved in this recommendation of increasing the 25-per cent reserve to a 35-per cent or a 40-per cent reserve?

Mr. FLANDERS. Mr. President, I would say to the junior Senator from Washington that there is no reason that I can see or imagine for making this provision a part of emergency legislation. The principal effect the passage of this measure could have at this time is a psychological effect along the lines suggested by the senior Senator from Ohio. [Mr. TAFT]. However, I think the psychological effect will be entirely different from that which he envisaged. We have an enormous public debt. There is, as was indicated in Mr. Sproul's testimony, and as I think all of us realize, no fear that in any foreseeable future time there will be a flight from the dollar to things or goods, such as has occurred in European countries; but there is a question very much under discussion, very much in the minds of business and banking people, and

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I think it is beginning to get into the minds of the public. It is the question whether the government is going to continue its support of government bonds at par.

If this measure has any psychological effect whatsoever, Mr. President, it will be to accentuate the doubt as to whether the government is going to support the price of government bonds, because to the extent that the gold reserve is raised at this time, in the face of our enormous public debt, which is an element in the whole problem, and which was not in existence to the same extent at the time when the gold reserve was reduced, to that extent the increase of the gold reserve is going to reduce the ability of the Federal Reserve System to support the price of government bonds.

PSYCHOLOGICAL EFFECT

So the psychological effect is going to be to increase the doubt of the people of the country as to whether the government bond market will be supported, and that is a psychological effect which I think is important.

Mr. TAFT. Mr. President, will the Senator yield?

Mr. CAIN. I yield.

Mr. TAFT. That is exactly the psychological effect it should have, because if the government is going to say, we are prepared to spend any number of billions of dollars—thirty or forty billion dollars—to monetize the debt, rather than to let the government bonds go down, that is an inflationary position which we should not establish.

If we put the reserve back to 40 per cent, we say, in effect, you have $14 billion with which you can buy bonds. If you spend as much as $10 billion, it is very doubtful whether you should go on; and we shall reconsider at that time whether we shall further reduce the reserve so that you can buy billions of dollars more of government bonds and monetize them.

I think there should be a stopping point at which the Federal Reserve Board can buy government bonds and issue currency in place of them. Today that stopping point is practically nothing; with a 25 per cent reserve, that stopping point is perhaps $30 billion, or some figure of that sort.

If we reduce it to $14 billion, by putting the reserve up to 40 per cent, if that is to be the point where we must stop and look around before we let them go on in what is clearly an inflationary process, it seems to me that will be a very good thing to do at the present moment, for the psychological effect.

Mr. FLANDERS. Mr. President, I thank the senior Senator from Ohio for having supported the contention I have just made. Evidently he feels that that is the purpose of section 2, which has been introduced from the House. If that is the purpose, I submit it is no part of emergency legislation, and should not be considered at this time, but should have the earnest consideration of the Banking and Currency Committee, with full public hearings. . . . .

Mr. TAFT. Mr. President, will the Senator yield?

The PRESIDENT pro tempore. Does the Senator from Washington yield to the Senator from Ohio?

Mr. CAIN. I yield.

Mr. TAFT. I think, so far as I remember, that in the meetings to try to find out what could be done in the matter of restraining inflation from a credit standpoint I was the one who suggested that this provision be inserted. So I do not think it can be said that we are in any way following the leadership of the House. I agree it is not an absolutely vital matter whether we do it or do not do it, but it seems to me a perfectly sound provision.

I went through all the hearings three years ago when it was thoroughly examined by the Committee on Banking and Currency, and perhaps I have had more opportunity to hear testimony than the other members of the committee; so I am not criticizing the committee's action. But it does seem to me that something can well be done, something which can in no way handicap anyone in doing anything he desires to do, so far as I can see, but which will indicate that the Senate and the Congress feel in the first place that the currency should be backed by as solid a metal as can be found, so far as we can safely go; in the second place, that we should say to the Federal Reserve Board, "You do not have unlimited power to go out and issue all the currency you want to issue in behalf of a policy of supporting gov-

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ernment bonds, or any other policy; if you get to a point where you want to do something which is clearly inflationary, come around and see us again."

I notice that speeches I made three years ago at the time this was passed have been quoted, and I shall read from what I said at the end, explaining in part the reason why we did it:

> Just before the expiration of the two years, there would be a tendency among foreign nations and others to rush in and try to get the gold while it was still available; and because of the increased requirements of our own system, there might be great difficulty in meeting the demands of foreign nations for the export of gold.

So, Mr. President, it seems to me we should do what we are doing. We should leave for two or three years from now the final settlement regarding what the reserve should be in time of peace, if then we think it should be changed from the 25-per cent rate. In other words, we did something which was a war measure at that time, and what I at least am proposing now is that we return to the peacetime basis for setting our gold reserves.

Mr. McFARLAND. Mr. President, will the Senator yield?

The PRESIDENT pro tempore. Does the Senator from Washington yield to the Senator from Arizona?

Mr. CAIN. I yield.

Mr. McFARLAND. I asked during the time of the hearings if it was not recognized, when this reduction was made, that it was inflationary, but that it was best, solely because it was necessary in order to help finance the war, or was thought to be.

Mr. TAFT. Yes. I should like to read later more of Mr. Burgess' statement before the committee at the time we did this. But in answering the Senator's question, he says:

> The bill before the Senate removes, in reducing this reserve, certain automatic checks on credit inflation.

I meant to say that the very reason I agreed at that time to the reduction in the reserve was that we eliminated the so-called Thomas amendment which authorized the indefinite issue of $3 billion of greenbacks. I think that was the bill in which we also eliminated the provision authorizing the issue of so-called Federal Reserve notes without any collateral at all. That was in effect a part of the arrangement made at that time to nullify the inflationary effect of the reduction of the gold reserve.

Mr. TAFT. Mr. President, I do not care to repeat what I said yesterday, but I do want to ask for a correction of the RECORD on page 10131 of yesterday's RECORD. It reads:

> As I see it, a larger gold reserve does not have any meaning or effect.

What I said was:

> As I see it, a larger gold reserve does not have any immediate effect.

I ask that the correction be made.

The PRESIDENT pro tempore. The correction will be made.

Mr. DONNELL, Republican, Missouri. Mr. President, will the Senator yield for an inquiry?

Mr. TAFT. I yield.

Mr. DONNELL. I have found difficulty in understanding two statements on page 10132, and I am wondering whether either one of them is an error or whether it is my inability to understand it. It is in the second column, about half way down. The Senator from Ohio is there quoted as saying, after referring to the Federal Reserve banks:

> Today they can still buy fourteen and one-half billion more government bonds.

In the next paragraph it states:

> I do not know how much more they could buy under present conditions—perhaps $30 billion or so.

Is there an inconsistency in those two statements, or do I not understand the distinction which was in the mind of the Senator?

Mr. TAFT. I have sent for the figures to try to make it more accurate. My suggestion was that under the existing reserve of 25 per cent $30 billion or so can be bought. If it is increased to 40 per cent, it would be limited to something like $14 billion.

Mr. DONNELL. That is what I deemed the Senator meant, although in that first para-

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graph to which I directed his attention the language is:

> Today they can still buy fourteen and one-half billion more government bonds.

That sounds as if it has reference to the present conditions under which the 25-per cent reserve is all that is required.

Mr. TAFT. That should be corrected. However, I hope to have the correct figures here in a moment.

Mr. President, I desire to add one further thing because it shows so clearly what the issue was at the time we reduced the reserve in 1945. I wish to read from the testimony of Mr. Burgess, president of the American Bankers' Association at that time. He said:

> Mr. BURGESS. There are two reasons for the restraints on Federal Reserve action which are contained in the legislation you are discussing; that is, restraint on the pledging of government securities on Federal Reserve notes and the percentage of reserve required against deposits and not liabilities.

That was a different question.

> First, to place some limitations on the very great power which the Federal Reserve Act puts in the hands of a few people.
>
> Second, to serve as red lights when a huge expansion or credit takes place, for such credit expansion is dangerous.
>
> We are in the process of going through red lights. In addition to the bill before this committee, a bill raising the debt limit is before Congress, and that also means passing a red light.

Remember, we were still at war at that time.

> Inflation usually shows itself in rising interest rates, and we have suppressed by government control, not the inflationary forces themselves but their danger signals.
>
> The danger signals are being passed but the inflation is going forward. The money held by the people, both in currency and bank deposits, is piling up in unprecedented amounts. We now have the same forces at work, but in exaggerated degree, that gave us the inflation of 1919 and 1920 and the crash of 1921. It took years for the farmer to recover from that boom and crash that carried wheat prices up to $3.50 and down to $1; that doubled the price of farm land and then dropped it back again.
>
> The same forces later caused the real estate and security inflation of 1927-29 and the later depression of the thirties. It took the war to pull business and labor out of that slump.
>
> There are many signs that these inflationary forces are vigorously at work today.

This was the spring of 1945.

> We see them in city and farm real estate and in all uncontrolled prices, in black markets and lower quality of goods. The amount and quality of food, clothing, shelter, and service that the citizen can buy for his dollar is steadily declining.
>
> We bankers are working with the Treasury in selling government bonds to the people. We have put on a lot of pressure and incurred, I believe, a moral obligation to those people to keep their dollars sound. After World War I the price of Liberty bonds dropped 15 per cent, but their buying power in goods dropped more than that. Today, the savings bond fortunately can't drop in price, but its buying power can fall and, in fact, is now falling.
>
> This bill before the Senate removes certain automatic checks on credit expansion.

That is what we were necessarily doing. We were removing automatic checks on credit expansion; and I am suggesting that at the present time we put them back.

Then the Senator from New Hampshire [Mr. TOBEY] asked a question. He said:

> And ergo, it follows—

The Senator from New Hampshire was using the Latin term "ergo."

> And ergo, it follows from your first statement to the effect that we are going through red lights, that it is a necessity to go through red lights.
>
> Mr. BURGESS. We have to; yes, sir. To do so is a wartime necessity, but it means we must be increasingly alert. We ought to review where we stand on the inflation problem and take what steps we can to put the brakes in working order.
>
> We, therefore, make the following definite suggestions:
>
> 1. That the bill be amended so that at the same time that the use of government securities for Federal Reserve notes is made permanent, the 1933 emergency power to issue Federal Reserve bank notes and the

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power to issue greenbacks under the Thomas amendment of 1933 shall be repealed.

That advice was followed; those provisions were repealed.

2. That the committee consider whether it may not be better at this time to lower reserve requirements to 30 rather than to 25 per cent. Thirty per cent is likely to take care of the needs for many months—

At that time gold was going out of the country and we were getting fairly close to the point where many more government bonds could not be bought. We were much closer to that point than we are today—

and if it then proves inadequate, it will be because credit expansion has gone to a point where congressional review may be desirable.

3. That every proposal for government postwar spending be scrutinized with great care. Government spending is the chief cause of inflation. We agree wholly with Chairman Eccles' statement that "Nothing would be more helpful to prevent inflation developing than to have a balanced Budget shortly after the war." I am quoting from the text of the statement I saw. It was not a corrected text, and whether it has been corrected or not, or changed, I do not know. No campaign among the people and no price controls will be adequate to curb inflation unless the government itself sets an example and puts its own house in order.

4. That the committee request the Federal Reserve Board to make a comprehensive report to Congress on the dangers of inflation and proposed methods for its avoidance.

That was the program submitted in 1945. The reduction in reserves was accepted with the greatest reluctance. So far as the American Bankers' Association was concerned, they thought it ought not to be in excess of 30 per cent, and they feel today that it should be returned to the figure which obtained before the war. So I think it is clearly a question whether restoration of the reserve will be a deterrent to inflation. It may be a psychological deterrent, and it is something which I believe Congress ought to do at the present time. Should it be defeated, I think I shall offer it again at the next session of Congress.

Mr. SMITH. Mr. President, will the Senator yield?

Mr. TAFT. I yield to the Senator from New Jersey.

Mr. SMITH. In connection with what the Senator from Ohio said in reading from the testimony of Mr. Burgess, I may say that Mr. Burgess was the man to whom I talked on this subject this very morning, and he is urging a restoration of the 40 per cent. I am confused by the situation, because it seems to me that there is a very wide difference of opinion. While I agree with the Senator from Vermont [Mr. FLANDERS] that we do not want to rush into it hurriedly, I feel that we should want to restore normal conditions.

Mr. CAIN. Mr. President, will the Senator yield?

Mr. TAFT. I yield.

MR. BURGESS

Mr. CAIN. It happens that I know Mr. Burgess personally and in his official capacity, and I hold him in exceedingly high regard. He did not come before our committee, nor did he ask for permission so to do. That is true with respect to a number of other equally distinguished private bankers. It is clear, as the Senator from New Jersey has stated, that it is a controversial subject. The committee is recommending, in the absence of sufficient testimony on this important subject, and because the Federal Reserve System does not wish the rate limit to go higher, that a study be made with a view to making a recommendation as to what height it should go and whether it would be proper for the Banking and Currency Committee seriously to recommend the adoption of a measure which the committee itself thinks is deserving of a more thorough study. The very distinguished Senator from Ohio has just indicated that if the wish of the committee prevails he will introduce a bill in the next session of the Congress. The committee only urges the Senate to support the committee, and then the committee will, and I, in its name, do so now, encourage the Senator from Ohio to introduce for early consideration in the next session the subject of increasing gold reserves.

Mr. DONNELL. Mr. President, will the Senator yield for a question?

Mr. CAIN. I certainly will.

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Mr. DONNELL. In the existing law it is provided that—

> Every Federal Reserve bank shall maintain reserves of gold certificates of not less than 25 per cent against its deposits and reserves of gold certificates of not less than 25 per cent against Federal Reserve notes in national circulation.

I should like to make two inquiries, one is a question of fact, the other a question of reason. The question of fact is, can the Senator enlighten us as to the approximate amount of the aggregate deposits today in the Federal Reserve banks and the approximate amount of Federal Reserve notes in actual circulation at this time?

Mr. CAIN. The Senator from Washington cannot provide an accurate answer to the question without reference to the figures, which would take some time, but we can readily provide an answer to the question in a few minutes.

Mr. TAFT. I have some figures here, and after answering the Senator's question, I think they should be made a part of the RECORD. What is the question?

Mr. DONNELL. My question is, What is the present aggregate amount of deposits in the Federal Reserve banks?

Mr. TAFT. The total deposits are $20,316,000,000.

Mr. DONNELL. The second subdivision of my question was, what is the present aggregate amount of Federal Reserve notes in actual circulation?

Mr. TAFT. The answer is $23,806,000,000.

Mr. CAIN. The Senator from Ohio referred to billions in each instance, did he not?

Mr. TAFT. Yes; $23,806,000,000.

Mr. CAIN. And the Senator's other reference was to $20 billion, not millions?

Mr. TAFT. $20,316,000,000.

Mr. DONNELL. I thank the Senator from Ohio. Will the Senator from Washington yield that I may ask another question?

Mr. CAIN. Certainly.

Mr. DONNELL. Can the Senator tell us the reason, if he knows, why the House amendment differentiated in the percentages which it made applicable with respect to deposits and to notes in actual circulation, so that 35 per cent in the one case is provided in the House amendment, and 40 per cent in the other case, namely, 35 per cent against deposits, and 40 per cent against Federal Reserve notes in actual circulation? Has the Senator already given us that information?

Mr. CAIN. I have given it in brief fashion. I should like to restate for the information of the Senator from Missouri what Mr. Sproul of the Federal Reserve Bank in New York had to say on the subject. He thought it was rather futile—

Mr. DONNELL. The Senator means the differentiation was futile?

Mr. CAIN. He says it is futile to have a different reserve requirement for notes and deposits in a country with a highly developed deposit banking system, in which notes and deposits are completely interchangeable.

We have tried to ascertain as best we could —because it is an interesting question— wherein lies the logic for making this differentiation, and no man has yet given us any approximation of what appears to be a reasonable answer.

Mr. TAFT. Mr. President, will the Senator from Washington yield?

Mr. CAIN. I yield.

Mr. TAFT. It was a part of the original Federal Reserve law, passed in the Wilson administration, in 1915, I think. I suppose the issue of notes was regarded as more inflationary than the acceptance of deposits on time. There is no real reason today for such a differentiation.

Mr. DONNELL. Let me say, with the Senator's consent, in order that the record may be complete regarding what the Senator from Ohio has just stated, that I hold in my hand the statute enacted December 23, 1913, the opening portion of which reads:

> Every Federal Reserve bank shall maintain reserves in gold certificates or lawful money of not less than 35 per cent against its deposits and reserves in gold certificates of not less than 40 per cent against its Federal Reserve notes in actual circulation.

Of course that is the precise statement in substance the Senator from Ohio just made. I should like to inquire if the Senator from Washington knows the reason for the differen-

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tiation in the original statute, and knows whether or not the House gave consideration to the point Mr. Sproul makes as to the alleged invalidity of the differentiation.

Mr. CAIN. Mr. Sproul and the Senator from Ohio have been both said they know of no logical reason at all for making any differentiation. I was not either in the Congress or interested in money matters at the time the Federal Reserve statutes were drawn. I do not know what was in the minds of those who urged that legislation at that time. All I know is that in the highly complex and delicate banking system from which all of us benefit in this country today, there is no continuing need for such a differentiation. Yet our primary reason for asking that the Senate consider this matter at a later date is rather firmly supported, I think, by virtue of the amendment which the House has sent to the Senate in which they include a requirement which one of the supporters of that amendment himself has just said is, in his considered opinion, totally unnecessary.

I wish I could give the Senator a more constructive answer, but I am inclined to think that in terms of the need for a distinction, there simply is not any, and that we should not be a party to continuing a mistake of the past.

Mr. DONNELL. Mr. President, will the Senator yield for a further inquiry?

Mr. CAIN. Certainly.

PRESENT DEPOSITS

Mr. DONNELL. I understood from the Senator from Ohio that the present amount of deposits in the Federal Reserve banks is $20,316,000,000. The amount involved, therefore, in changing the existing reserve requirement of 25 per cent as regards deposits to 35 per cent is approximately $2,031,600,000; one-tenth, in other words, of the amount of the deposits. Is that not correct?

Mr. CAIN. If I understood the Senator's question correctly, I think the Senator from Ohio yesterday introduced into the RECORD an editorial from a New York paper which answers the Senator's question in the following fashion:

> If there were 40 cents in gold behind each dollar of Federal Reserve currency, it would be possible, at the present level of reserve gold holdings, to issue about $14,500,000,000 in additional currency.

Mr. TAFT. Mr. President, will the Senator from Washington yield?

Mr. CAIN. I yield.

Mr. TAFT. The Senator referred to a statement I made yesterday, and he has said what I intend to say, that is, that if we accept the House measure, the Federal Reserve banks will still be able to buy over $14 billion more of government bonds. Under the pending bill, I find from these figures, the Federal Reserve banks will be able to buy $45 billion of government bonds with the 25-per cent reserve.

Mr. DONNELL. I ask again, how many billion dollars of bonds would they be able to buy under the 35-40-per cent reserve plan proposed by the House amendment?

Mr. TAFT. About $14 billion of bonds.

Mr. DONNELL. So that there would be a net decrease in the amount of bonds they could buy of approximately thirty or thirty-one billion dollars?

Mr. TAFT. That is correct. There is practically no limit today on what they can buy. If they had to buy $10 billion more of bonds and issue Federal Reserve notes, and increase the currency from about $26 billion, counting other things, to $36 billion, I think we should take a look at it and decide whether or not we were going to let them indefinitely go with such increases in the currency.

Mr. DONNELL. Mr. President, will the Senator from Washington permit me to ask the Senator from Ohio another question?

Mr. CAIN. I am very glad to yield.

Mr. DONNELL. I understand that if the 35- and 40-per cent provision proposed by the House shall be put into effect, there will be an ability to buy only approximately $14 billion of bonds.

Mr. TAFT. Fourteen and a half billion dollars of bonds. They now have $21 billion of bonds which have been accumulated at the rate of more than three or four billion a year. It would mean a tremendous speeding up for them to buy $15 billion of bonds in six months.

Mr. DONNELL. I understand also that under the present law which requires 25 per cent reserves in the case of deposits and notes

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in actual circulation there is an ability to buy approximately $45 billion of bonds.

Mr. TAFT. That is a very rough calculation, made in a hurry.

Mr. DONNELL. I have made only a hasty calculation myself, but the tentative calculation I have made does not enable me to follow the figures the Senator from Ohio has given. As I see it, under the present law regarding deposits, there would be a requirement to maintain a reserve of 25 per cent, whereas under the proposed House measure the requirement would be to maintain a reserve of 35 per cent. There are only $20,316,000,000 of deposits, so that the addition to the reserve which would be required under the House measure, as regards deposits alone, would be $2 billion and a fraction over, namely, 10 per cent of the $20 billion of deposits. There would be a difference of $2 billion between the amount of reserves required under the proposed House bill and the amount required under existing law.

Mr. TAFT. The 35-40-per cent proposal introduces a complication which makes it difficult to calculate the figures, but if we treat deposits and notes as practically the same, and assuming that a 40-per cent reserve is required, as the Federal Reserve banks own $22,404,000,000 in gold or gold certificates, 40 per cent reserves will support $89 billion of notes and deposits. We actually have today some $44 billion of notes and deposits. The difference between $89 billion and $44 billion is $45 billion for notes and deposits. That would be the figure if we required a 40 per cent reserve. It is not proposed to require quite that much reserve; the requirement is only 35 per cent. Therefore, the figure would be somewhat higher than $45 billion.

Mr. DONNELL. Mr. President, will the Senator from Washington again yield?

Mr. CAIN. I yield.

Mr. DONNELL. I do not want to go too much into details on the mechanics of the question, but I think it is of some importance to appreciate just how much in dollars, at least approximately, is involved in this proposed change by the House. I have not yet been able to make my computations come anywhere near the computations of the Senator from Ohio. As I see it there will be as much decrease in the ability to buy bonds as is equal to the increase in requirements of reserves if such increase is brought about by the pending measure.

Mr. TAFT. No; that is not so.

Mr. DONNELL. Why is it not so?

Mr. TAFT. Because what happens is this: If a Federal Reserve bank buys $10 billion of bonds it issues $10 billion of notes before it increases its deposits $10 billion. Consequently it is necessary to take the existing liabilities, which are approximately $23 billion of notes and $20 billion of deposits, or a total of $43 billion, and it is necessary to increase that to about $54 billion without increasing the gold reserves. In other words, the amount is added to both the reserves and the balance sheet. The limiting factor is the $22,400,000,000 of gold. So long as there is that gold reserve, and none of it is lost by buying government bonds—and gold is not paid out for government bonds; notes are given for them—so long as that $22 billion of gold is in the reserve it will support a total liability of the Federal Reserve banks of $89 billion.

Mr. DONNELL. Mr. President, will the Senator permit a further question?

Mr. CAIN. Certainly.

Mr. TAFT. Just a moment. Take the figure $44 billion. The Federal Reserve balance sheet is now made up of $22 billion of certificates and $21 billion of government bonds. They would then have an increase of $45 billion of government bonds, while having $22 billion of gold just the same. On the other side of the balance sheet they would have deposits and notes of about $85 billion, and it would still be legal. They would have bought, therefore, $45 billion of government bonds and they would still be within this reserve requirement. Such an operation, I think, would cripple the currency in the hands of the public and would bring about a condition which would be most unfortunate.

Mr. DONNELL. The Senator from Ohio may well be correct, and I am very much interested in the figures he has given us. I should like, however, to have the RECORD show, so that at least this angle may be in the RECORD, that with the present requirement of 25 per cent immediate reserves applicable to deposits in Federal Reserve banks, an increase in that

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requirement to 35 per cent would mean an increase, as I see it, of ten per cent in the amount of the $20,316,000,000 of deposits, or $2,031,600,000. In like manner the present law applicable to Federal Reserve notes in circulation requires a 25 per cent reserve, whereas the proposed House measure requires 40 per cent, or not less than 40 per cent, I should say. That is a difference of 15 per cent with respect to these notes. Now 15 per cent of $23,806,000,000 is, as I figure it, $3,570,000,000. And the aggregate of $3,570,000,000 and $2,031,000,000, in round figures, is $5,601,000,000. I should like to have those figures in the record for the consideration of the Senate.

Mr. TAFT. Mr. President, the Senator's method of calculation, I am sorry to say, is wrong; that is, in calculating how many more bonds the Federal Reserve banks could buy, the figures are wrong. The Senator, I think, can accept the statement from the editorial I read into the record yesterday, that if the House amendment is adopted, the Federal Reserve banks can still buy $14,500,000,000 of bonds, and that under the present law there the limit is much higher, being in the neighborhood of forty-five billion or forty-six billion dollars of bonds.

Mr. TOBEY and Mr. HAWKES addressed the chair.

Mr. CAIN. If Senators will permit me, I should like to make one observation with respect to what the Senator from Missouri has said. I think one important fact to bear in mind is that the Senator from Ohio, who encourages very strongly the adoption of the House amendment, is the first to agree that Federal Reserve deposits and notes are entirely interchangeable. To carry that one step further, he is criticizing the amendment which has come to us from the House, because it would require 35 per cent reserves behind deposits, and 40 per cent behind notes. The only justification for the recommendation is purely an historical one, which goes back many years.

Mr. TAFT. Would the Senator accept an amendment of a flat 35 per cent? I, myself, would even accept 30 per cent flat. In fact, if the amendment of the House is retained I would be glad to offer an amendment to change the 40 or 45 per cent figure to 35 per cent flat, or, even, if it were acceptable to the Senate, to 30 per cent.

Mr. CAIN. If the House amendment should prevail I would agree with the Senator that the first thing we would have to do would be to make it a good amendment. But the lack of competent testimony on the subject, not in this body, sir, but coming to us as a committee, does not justify our taking action at this time, and we should like to take the Senate's position to conference.

I shall now yield to the Senator from New Hampshire.

Mr. TOBEY, Republican, New Hampshire. Mr. President, I shall be very brief. I propose to speak in my own right before the vote is taken on the effort to change the gold reserves. But I do want to bring to my friend, the Senator from Washington, and my friend the Senator from Missouri [Mr. DONNELL], and my friend the Senator from Ohio [Mr. TAFT] an incident which may serve as an illustration relating to what has just taken place. I refer to it in view of the colloquy that has been going on in the elucidation of figures in the *n*th degree here, which I confess have me mystified, because this matter of figures is a very difficult thing to prove by other figures.

LIGHTNING CALCULATOR

What we need is a lightning calculator like one whom I am about to tell the Senate. He was on a New England train going up into Vermont and New Hampshire. As he sat in his seat looking out of the window, he kept moving his shoulders this way and that way in apparently a very nervous manner. The conductor noticed his actions, and inquired, "Have you a nervous disease?" "No," answered the man, "I am a lightning calculator. While sitting here and looking out of the window I am just practicing my vocation. I count the cows in the fields as we pass by them." "So you can count the cows in the field?" said the conductor. "Well, I will give you something to do. Five miles from here is a farm on which there are a great number of cows. It belongs to my brother. You will identify it by a large red barn, with a cupola on it. There is a white house and a large green lawn in front of it, and you will see a great many cattle in the pasture, running alongside

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our tracks. When you come to that place count the cows, and when I return I will check the number with you and see if you are correct. I know the actual number there. If you make a correct count I will agree that you are indeed a lightning calculator." And I say, Mr. President, that what we need for the Senator from Missouri [Mr. DONNELL] and for the other Senators who have taken part in the discussion of figures, is a lightning calculator.

After a while the conductor returned and asked the man, "Did you count the cattle in the field I told you about?" The man said, "I did." "How many were there?" The man said, "84." The conductor said, "That is exactly the number. It is marvelous. How did you do it?" "Why," the lightning calculator said, "that was easy. I just counted the teats and divided by four." [Laughter.]

Mr. President, what we need in the Senate Chamber now is such a calculator to get the figures being dealt with correct.

Mr. CAIN. Mr. President, the Committee on Banking and Currency is hopeful that the Senate will support the committee's point of view, which is to reject the recommendation made by the House, so that the least opportunity we shall have is to take the matter to conference, to benefit from further views.

The PRESIDENT pro tempore. The question is on agreeing to the amendment offered by the Senator from Washington [Mr. CAIN] on behalf of the committee.

Mr. TOBEY. Mr. President, while I happen to be chairman of the Banking and Currency Committee, which is a great privilege and honor, and affords opportunities for fine fellowship, I must confess that I have many limitations to a complete understanding of finance, foreign exchange, and monetary matters. There is often a diversity of opinion around the committee table, as there should be in the democratic process.

However, I think I am safe in saying that I am not alone in limitations. I do not believe that there are many members of this body who can be called real authorities on this subject.

The question before us now is that of restoring the gold reserves as they were two or three years ago. I am against it. The committee is against it. The committee voted eight to one against it. Every witness who came before us was against it. To whom are we to look for understanding of these problems if we do not look to the present Governor of the Federal Reserve Board, Mr. McCabe, the man who deposed Marriner Eccles as Governor; the head of the greatest bank in the Nation, Mr. Allen Sproul, head of the Federal Reserve Bank of New York—and I do not go down the scale when I mention the man in the light coat who sits behind me, the distinguished Senator from Vermont [Mr. FLANDERS] who at one time was president of the Federal Reserve Bank of Boston. He understands finance and Federal Reserve matters as well as does any other man under this Capitol dome.

They all say, "Let the thing alone." The Senator from Ohio [Mr. TAFT] and the proponents of the change, including the Banking and Currency Committee of the House, present the amendment to us and say, "This will not affect things today. This is only a matter of psychology." How long have we been worried about psychology? Did we apply psychology in the action which we took yesterday, in taking away public housing and rent control? What sad psychology is involved in that action?

How is psychology applied to the teeming millions in this country who are burdened with high prices and who are wondering whether Congress cares anything about them? They ask for bread, and we give them a stone. As I contemplate the work of the Congress in this special session I am of the opinion that the mountain labors and brings forth a mouse. Opposition to increasing the gold reserves as proposed in the House bill is the sentiment of the Committee on Banking and Currency, the sentiment of Mr. Sproul, Mr. McCabe, Mr. Eccles, and all the banking authorities who came before us.

The proposal to increase the gold certificate reserve requirements of the Federal Reserve banks would make no contribution whatever to the fight against inflation. That is why we are here. We are here to make a fight against inflation but we have done nothing whatever against it. We have not lifted a finger against inflation in this session. We certainly cannot

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do it by putting something more of nothing in the basket. It is only psychology, we are told.

The proposal before us might well demoralize the government bond market or precipitate the kind of money panic the Federal Reserve System was created to prevent.

The proposal is apparently based on the idea that the country's gold supply can, and should, automatically govern the supply of credit. Unfortunately, that simple theory does not fit the hard facts of how the economic system operates.

It has long since become evident that the flows of gold to or from a country have little or no relation to its internal credit needs. Tying the supply of credit rigidly to those flows of gold would be like tying it to a wheel of chance.

No one would seriously suggest that the Federal Reserve System should always increase Reserve bank credit to the full extent permitted by the gold certificate holdings of the Federal Reserve banks. If the System did that, it would have to increase Reserve bank credit by almost $12 billion above present levels even if the proposed 35 per cent and 40 per cent requirements were in effect. The disastrous folly of requiring the System to take such inflationary action at the present time is obvious.

But it would be equally unrealistic and unreasonable to place the requirements at a level that might arbitrarily require the System to reduce Reserve bank credit at a time when such action might be equally disastrous. The 35 per cent and 40 per cent requirements would have no effect for the present or foreseeable future—except to cause needless operating difficulties for some of the Reserve banks. But at some future time they might suddenly—and by the pure accident of gold movements—force the System, willy-nilly, to curtail credit. Such action might conform to the real credit needs of the country at the time, or it might not. It would be merely a lucky accident if it did.

The present requirement is thoroughly acceptable to the public and is ample to serve the only real purpose of such a requirement on a Reserve bank—that of helping to sustain public confidence in Federal Reserve credit and currency.

The proposal would appear to be a clumsy effort to force the Federal Reserve System to abandon support of the government securities market and thus bring about sharp increases in interest rates. It is inconceivable that Congress or the public desire to create a run on the currency or collapse of the bond market. If that were the intention it should be done openly and frankly and not by indirection and in disguise.

PRESENT SITUATION

The committee can see no reason for tinkering with a provision which is working well and has no relation to the present inflationary situation. Only harm could come from passing the present proposal which could not help solve the present inflationary problem and might well rise to plague the country in the future.

Psychology? Apply the test to housing, and the cost of living to the masses of the people. Will an interest in psychology lead us to change the fundamental banking laws of the nation at a time of great crisis? If we do not follow the testimony of Sproul, McCabe, Eccles, and Ralph Flanders, whom are we to follow?

I leave the decision with the Senate. There is no question in my mind what it ought to do. Let us stand by the present situation. This is nothing but ephemeral talk having a subtle intent to withdraw government support from the federal bond market, which in my judgment should be supported consistently for some time to come.

* * *

Mr. TAFT. The amendment of the committee keeps the present reserve of 25 per cent and refuses to increase it. It was said by the Senator from New Hampshire that gentlemen from the Federal Reserve Board testified it should not be increased. The difficulty with the Eccles philosophy of government is that he does not believe in any gold reserve at all. He made that perfectly clear when he testified in 1945. He says we are practically the only country that is on any such basis of a gold backing for its money. The English and the Canadians do not have any gold reserve. They have no such requirement of a gold backing of their currency. We are the only country

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left that still has the idea of maintaining a gold reserve back of its currency. That is the philosophy that has reduced the gold reserve requirement, and it is the philosophy which I oppose in trying to restore the gold reserve to a figure where it will mean something in restraining inflation.

Therefore, Mr. President, I suggest that we take a vote on the amendment. . . . .

The PRESIDENT pro tempore. The question is on the committee amendment to the House amendment to Senate Joint Resolution 157.

Mr. O'MAHONEY. Mr. President, I do not want this matter to be voted on without another word with respect to the dangerous character of the suggestion carried in the House provision, increasing the gold reserve. I should like to point out that the majority of the Banking and Currency Committee, a very overwhelming majority as I understand, only two members of the committee, I am told, having voted against the committee amendment, have come to the conclusion that this is no time to make the very substantial change in the gold reserve policy. The evidence before the committee was clear that the governors of the Federal Reserve System are now giving study to this precise question. No hearings have been held for this precise purpose, at any length. The implications of the increase are so great, they have been so clearly set forth in the remarks by the Senator from Alabama [Mr. SPARKMAN], that I feel all members of the Senate should realize that if they vote now to change the present policy, they are seriously impairing the power of the government of the United States to sustain its bonds.

We reduced the gold reserve from 40 per cent to 25 per cent during the war, but when we made that reduction the national debt was only a fraction of what it is now. The national debt was increased successively after that reduction had been made. To manage the national debt is the most difficult fiscal problem faced by any country. If the United States of America is not able to manage its debt, if Congress does anything whereby it impairs the power of the government to carry on open-market operations, the result can easily be a collapse of the bond market.

There is no doubt in my mind that there are several persons of great importance who believe bonds should be permitted to go below par, who believe this change should be made; but it is absolutely too great a risk to take. The banks of the country, members of Congress, members of the executive department, and leaders in business, all during the war have been selling the bonds of the United States upon the argument that those bonds will be maintained. Now, if without hearings, the Congress should undertake to deprive the government of the only power by which it supports the bond market, we would be inviting disaster.

I sincerely hope the committee amendment will be adopted.

The PRESIDENT pro tempore. The question is on agreeing to the committee amendment.

The amendment was agreed to.

The only thing that doesn't become smaller when it's contracted is a debt.

Little Dickie's mother, trying to talk him into taking a bath urged, "Surely you want to be a clean little boy, don't you?"

"Yes," tearfully agreed Dick, "but can't you just dust me?"

"No wonder you are such a sissy," declared the bad boy, "your pa and ma were married by the justice of peace."

"Well," retorted independent Susan, "from the noise I heard coming from your house, your pa and ma must have been married by the Secretary of War."

—*Christian Observer*

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